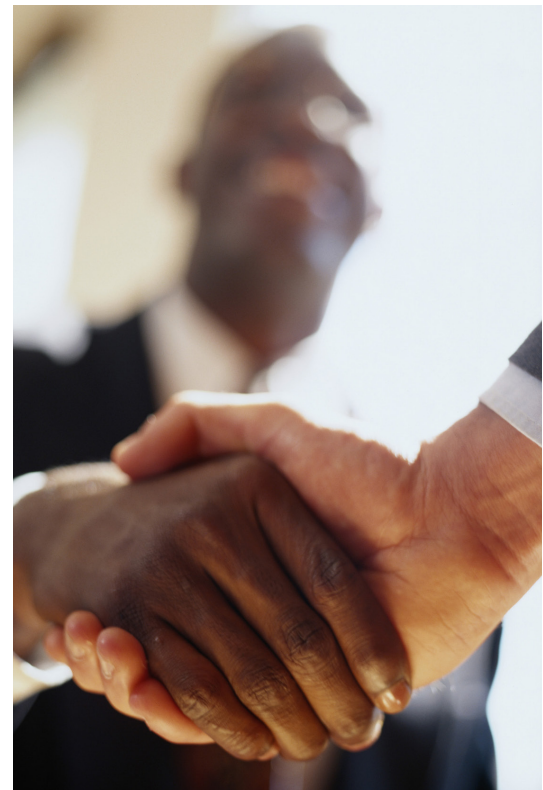




U.S. General Services Administration



SAVINGS • EFFICIENCY • SERVICE

2016 AGENCY FINANCIAL REPORT

TABLE OF CONTENTS

Letter From The Administrator	1
How GSA Benefits The Public	3
 MANAGEMENT'S DISCUSSION AND ANALYSIS	
Organization	9
Performance Summary	12
Financial Statements Summary And Analysis	20
Federal Buildings Fund	21
Acquisition Services Fund	23
GSA Management Assurances	25
 FINANCIAL SECTION	
Letter From The Chief Financial Officer	30
Inspector General's Transmittal Memorandum of The Independent Auditor's Report	34
Independent Auditor's Report	35
Consolidated Financial Statements	49
Notes To The Financial Statements	53
Consolidating Financial Statements	79
Required Supplementary Information	83
 OTHER INFORMATION	
Inspector General's Assessment of Management Challenges	87
GSA Responses to the Office of Inspector General's Management Challenges	120
Summary of Financial Statement Audit and Management Assurances	132
Schedule Of Spending	133
Improper Payments Elimination And Recovery Act	135
Other GSA Statutorily Required Reports	142
Freeze The Footprint	143
Civil Monetary Penalties Inflation Adjustment	144
Description Of Independent And Central Offices	145
Acronyms And Abbreviations	146

LETTER FROM THE ADMINISTRATOR

The U.S. General Services Administration (GSA) Fiscal Year (FY) 2016 Agency Financial Report (AFR) details our accomplishments and challenges in program and financial management over the past year. The audit opinion and financial results reported in the AFR exhibits GSA's commitment to operational integrity, accountability and transparency as a steward of public resources.

GSA's mission is to deliver the best value in real estate, acquisition, and technology services to government and the American people. While this has been the case over the course of our 67-year history, the tools and strategies we employ to deliver on this mission must change with the times.

Recently, this has meant focusing on three priority areas: Ensuring that our real estate and acquisition serves as a catalyst for economic development; streamlining and modernizing our acquisition systems and offerings; and, transforming the government's technology services to better serve the American people.

GSA manages more than 375 million square feet of property, one of the largest, most diversified real estate portfolios in the world. We are determined to leverage this strength to support the communities in which the federal government is located by acting as a catalyst for economic development wherever the federal government has a presence.

GSA acquisition solutions supply federal purchasers with cost-effective, high-quality products and services from commercial vendors and internal,



government developers. Each year, approximately \$50 billion go through GSA contracts.

GSA has placed itself at the forefront of bringing government procurement policy and services into the 21st Century. To cite but one example, over the past year, we designed and deployed an initiative to "Make it Easier" to do business with government, which is intended to: (1) Provide well-designed technological interfaces which allow vendors to register, update information, and interact with the government easily; (2) Ensure small businesses have the tools and support that they need to be successful when working with the government; and (3) Help vendors understand the procurement process and know how to seek business.

GSA has always led the charge in the realm of government technology, from being the first agency to move to the cloud, to founding and deploying 18F, the federal government's first tech "startup" venture to enable agencies to rapidly deploy easy-to-use, cost-efficient, and reusable digital tools, services, and expertise. To bolster and mature these technology efforts, GSA recently launched a third service, the Technology Transformation Service (TTS), in order to: (1) Fully weave an agile, iterative approach to technology development into the fabric of federal IT; (2) Help agencies make better IT purchases; and (3) Offer the best possible technology solutions that are most relevant to agency missions.

We think of TTS as the launchpad for the next big expedition for the federal government in technology; the place where the IT needs of government professionals are anticipated and addressed with the most innovative efficient and relevant solutions. Creating TTS provides a solid foundation for the federal government's modernization efforts.

As outlined in the Management Assurances Section of this report, GSA conducted its assessment of the effectiveness of internal control over operations, systems, and financial reporting. GSA can provide reasonable assurance that internal controls

were operating effectively in each of these areas throughout the year. Management relies on these internal controls to identify material inadequacies in financial and program performance areas and to identify corrective actions needed to resolve them. As required by the Reports Consolidation Act of 2000, I have assessed the financial and performance data used in this report, and believe them to be complete and reliable.

While the scope of GSA's work is certainly vast and varied, the mission, at its essence, is simple: We serve the government and the American people. We are a dynamic agency, indispensable to the functioning of government, while making positive change nationwide. This report provides a mere snapshot of the excellent, professional work the 12,000-strong GSA team performs daily in order to better serve partner agencies and the communities in which we work and live.



Denise Turner Roth
Administrator
November 08, 2016

HOW GSA BENEFITS THE PUBLIC



Public Buildings Service Commissioner Norm Dong plants flowers with the Fedkids in New York City

The U.S. General Services Administration was established on July 1, 1949, as a result of the Hoover Commission. The agency consolidated administrative functions across government into one organization in order to avoid senseless duplication, excess cost, and confusion in handling supplies, and providing space. The demand for government services is greater today than it has ever been. GSA is committed to delivering on its mission to provide the best value in real estate, acquisition, and technology services to government and the American people. Every day, GSA helps agencies buy smarter, reduce their real estate

footprint, and create a better, faster government that makes a difference in communities across the country.

Today, GSA's Federal Acquisition Service (FAS) conducts more than \$50 billion in business within the Federal, State, and local marketplace. GSA's Public Buildings Service (PBS) manages buildings for the Federal Government and provides workspace for more than 1.1 million Federal civilian workers with a portfolio that includes 8,721 owned or leased assets, more than 375 million rentable square feet of workspace, and more than 480 historic buildings either listed in or eligible for the National Register of Historic Places.

In 2016 GSA launched the Technology Transformation Service (TTS) to promote technological innovation and help Federal agencies build, buy, and share technology solutions. Our work in support of the mission is guided by a vision that focuses on three important principles: Economic Catalyst, Proactive Federal Partner, and Operational Excellence.

Economic Catalyst

Every day, the Federal Government's investments have an impact on the communities where we live and work. GSA is committed to working more closely with Federal agencies and city officials to build, lease, and consolidate strategically in places that make the most economic sense for the surrounding community by considering transit, housing, telecommunications infrastructure and other factors. We are also working to better support small business owners by lowering the barriers to getting on schedule and ensuring they

know about the opportunities that exist across government.

In fiscal year (FY) 2016 alone, more than \$33 billion passed through GSA's Multiple Award Schedules program. To support strong business participation in supporting the Federal Government, we are working to provide opportunities for suppliers across the board, including small businesses, new entrepreneurs, and those not familiar with working with the government.

In order to support this goal, FAS has introduced the Making It Easier initiative, which will allow innovative companies to do business with the government with as little burden and delay as possible. By offering well-designed tech interfaces that allow vendors to register, update information, and interact with the government easily, small businesses will have the tools and support they need to be successful when working with the government.

At GSA, we understand that our real estate portfolio has a significant impact on the neighborhoods that surround it. In order to make a real difference in the communities where we live and work, we are working to enhance the community benefit of our real estate decisions. We are renewing our efforts to support local and regional planning and economic development goals wherever possible through our real estate portfolio decisions.

Proactive Federal Partner

GSA has significant knowledge about the agencies we support, and it is our responsibility to use this knowledge to help them better serve the American people. By finding and taking advantage of opportunities to be a proactive Federal partner, GSA helps agencies improve service delivery and increase cost savings.

By putting customers at the core of our business, GSA ensures strong service for agency customers. Whether it's surveying the over one million tenants

in Federal buildings across the country about their workplace experiences, developing powerful acquisition tools like OASIS, offering agile software development through the 18F team, or sharing social media best practices on DigitalGov, we are always looking for newer, better ways to carry out our mission in partnership with our sister agencies. In order to help business lines work together toward common, customer-centric outcomes, we have created an Office of Customer Experience that works on customer issues throughout the agency.

Furthermore, GSA is driving acquisition excellence through Category Management and the Acquisition Gateway. Category Management is a common-sense approach to manage how the government spends money. It means analyzing how the Federal Government spends \$500 billion dollars each year and putting some structure into such spending; organizing the spending into product or service categories, such as IT Hardware, Office Supplies or Professional Services; and then managing each of those categories as a strategic business unit so we can better meet Federal client agency needs.

This is a major step forward for government acquisitions, and the Acquisition Gateway is the tool with which we will implement it. The Gateway is a government-wide technology platform that will give acquisition professionals easy access to actionable data and acquisition tools to help Federal buyers make smart choices and save time, money, and administrative resources. By better organizing the acquisitions of the Federal Government and providing better access to experts and information, GSA is assisting Federal agencies to make informed acquisition decisions that will benefit the American taxpayer.

One of our most important services is providing space for our agency partners, which is why we are working on reducing and modernizing the government's real estate.

One example of this effort is a new web-based leasing tool, the Automated Advanced Acquisition Program (AAAP). The new tool allows businesses and the general public to electronically submit offers to lease space to the federal government. The e-commerce platform will help drive savings to taxpayers by improving federal leasing efficiency in the real estate market. The AAAP consolidates and streamlines the leasing process by facilitating GSA's ability to meet federal office space requirements quickly and cost effectively. This is GSA using its resources to design tech interfaces that allow companies to do business with the government with as little burden and delay as possible and spurring economic development.

Finally, GSA is helping Federal agencies achieve better outcomes by showing them what's possible and providing access to acquisition solutions that can harness a 21st century approach to building new IT solutions. GSA has the experience and insights to help the government make the best decisions.

That is why GSA has established a new service line: the Technology Transformation Service. Serving as a foundation for the Federal Government's modernization efforts, this new service is comprised of the programs and services now offered by the Office of Citizen Services and Innovative Technologies (OCSIT), the Presidential Innovation Fellows (PIF), and 18F.

Since their founding, these programs have been providing innovative digital services and leadership to our Federal partners. They have developed specific technology solutions in support of our customer agencies' missions, while also helping them rethink the way they use technology to serve the American public. More and more, agencies are looking for this kind of assistance.

By moving these programs into a new service, we are demonstrating a commitment to make agile, user-centered delivery of technology the way we do business moving forward. This new service

complements GSA's current technology efforts, bolstering the strong support we already provide to partner agencies and allowing us to deliver transformative technology solutions.

By strengthening our role as a proactive partner throughout the Federal Government, GSA will help agencies improve service delivery and save valuable taxpayer dollars.

Operational Excellence

In recent years, this agency has done a great deal to improve itself as an organization. By collecting and relying more on data, enhancing reporting structures, and cultivating leaders, we have empowered people throughout GSA to make better decisions. This agency must continue to strive for the highest levels of operational excellence.

This agency's most important asset is a strong, diverse, and optimized workforce. GSA cannot serve the American people as an agency if we are not using everyone's diverse talents to the very best of their ability.

GSA is committed to supporting our workforce with the training and development that it needs. Enterprise wide programs such as the Competitive Development Program and GSA Rotational Program afford our employees the opportunity to cross-train within the Agency, increase collaboration, and provide future and current leaders the skills and development opportunities they require to meet GSA's evolving needs.

GSA is committed to hiring the highest quality talent to ensure long term success in meeting our mission. To this end, GSA has created the Emerging Leaders Program. This Program was designed to facilitate the college-to-career transition for all incoming entry-level talent and to provide a two-year development program specializing in the core technical and professional expertise

essential for effective leadership. In addition, GSA is implementing staffing plans throughout our services in order to firmly commit to targeting entry-level and mid-level hiring for a sustainable workforce.

We are also committed to strengthening performance management to drive outcomes. Performance management allows us to measure, monitor and communicate how GSA operates against planned targets and goals that lead to better results for our customers and the public.

To this end, GSA uses the Office of Strategy and Performance Management to coordinate and improve the way GSA collects and leverages performance data for our employees creating a culture throughout the organization focused on goals and measurable outcomes, all while becoming more transparent and data driven.

In order to build recent consolidations and ensure that cost savings meets efficiency and performance, we developed Service Level Agreements to ensure progress. We also created management dashboards which allows senior level managers to track progress real-time.

Finally, GSA continues the quest to ensure that data-driven decisions are at the core of our work. By making decisions based on facts and information, we are providing the American people with the highest level of service.

GSA has signaled a clear commitment to data-driven decision-making by joining the ranks of agencies with a clearly defined Chief Data Officer role and purpose-built teams focused on data migrations and reporting capabilities development. The agency has established avenues through Data to Decisions for cross-functional collaboration in the data management space, ensuring robustness of perspectives on security, architectural choices, and business needs across offices and levels of the organization. GSA engaged with the U.S. Chief Data Scientist and the Office of Science and Technology Policy to leverage the latest trends and promote government-wide collaboration.

Today, the mission of GSA is more important than ever before. This vision is driving our agency forward and giving us the ability to deliver savings in real estate, acquisitions, and technology services that allow agencies to focus on serving the American people to the very best of their ability.



MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

ABOUT THIS REPORT

The purpose of the U.S. General Services Administration (GSA) fiscal year (FY) 2016 Agency Financial Report (AFR) is to inform the President, Congress, and the American people on how GSA has used Federal resources entrusted to the Agency in 2016 to reliably deliver cost-effective real estate, acquisition and technology services to the Federal Departments and Agencies. Providing these services at a good value to our federal customers allows them to focus more of their resources on meeting their core missions to the American people. GSA has chosen to produce both an AFR and an Annual Performance Plan and Report for FY 2016 and FY 2018, respectively. GSA will include its FY 2016 APR with its Congressional Budget Justification and will post this AFR on the Agency's Web page.

This AFR provides high-level financial and highlighted performance results with assessments of controls, a summary of challenges, and GSA stewardship information. The AFR enables the President, Congress, and the public to assess GSA accomplishments and understand its financial position. GSA's end-of-fiscal-year financial position includes, but is not limited to, financial statements, notes to the financial statements, and a report of the independent auditors. The report satisfies the reporting requirements contained in the following laws, regulations, and Executive Orders:

- Improper Payments Elimination and Recovery Act of 2010;
- Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)
- Government Performance and Results Act Modernization Act of 2010;
- Improper Payments Information Act of 2002;
- Reports Consolidation Act of 2000;
- Government Management Reform Act of 1994;
- Chief Financial Officers Act of 1990;
- Federal Managers' Financial Integrity Act of 1982;
- Federal Financial Management Improvement Act (FFMIA) of 1996;
- Office of Management and Budget Circular No. A-123, Management's Responsibility for Internal Controls;
- Office of Management and Budget Circular No. A-136, Financial Reporting Requirements;
- OMB Memorandum M-12-12 Section 3 - Freeze the Footprint.

The APR is a detailed report on GSA's progress toward achieving the goals and objectives described in the Agency's Strategic Plan and Annual Performance Plan, including progress on the strategic objectives, performance goals, and Agency Priority Goals. The report will be delivered to Congress with the annual budget submission. The Summary of Performance and Financial Information is a citizens' report that summarizes this information in a brief, user friendly format.

This report is to be posted on this Web site: **gsa.gov/annualreports**. Previous reports are posted as well.

ORGANIZATION

GSA delivers goods and services to its federal customers through 11 regional offices and the headquarters office in Washington, D.C. GSA is comprised of 16 services and staff offices. The primary sub-organizations of GSA are the Federal Acquisition Service (FAS), the Public Buildings Service (PBS), the Technology Transformation Service (TTS), the Office of Government-wide Policy (OGP), 10 staff offices that support the agency, and two independent offices: the Office of Inspector General (OIG) and the Civilian Board of Contract Appeals (CBCA). For more information on these offices, please see the Description of Independent and Central Offices in the Other Information section of this report.

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*denotes acting

Updated: October 27, 2016

Federal Acquisition Service

FAS provides federal agencies over 11 million different products and services, and annually delivers over \$53 billion in information technology solutions and telecommunications services, assisted acquisition services, travel and transportation management solutions, motor vehicles and fleet services, and charge cards. FAS manages over 209 thousand leased vehicles, more than 3.3 million charge cards, and provides personal property disposal services facilitating the reuse of \$1 billion in excess/surplus property annually. FAS leverages the buying power of the federal government by negotiating fair and reasonable prices on many products and services required by federal agencies for daily operations. By arranging a network of service providers, FAS is able to meet the operating and mission requirements of a vast array of federal agencies and state, local, and tribal governments.

Public Buildings Service

PBS activities fall into two broad areas: workspace acquisition and property management. PBS acquires space on behalf of the federal government through new construction and leasing, and acts as a caretaker for federal properties across the country. As the largest public real estate organization in the United States, PBS owns or leases 8,792 assets and maintains an inventory of more than 375 million square feet of rentable workspace for 1.1 million federal employees. Within this inventory, PBS has more than 480 owned and leased historic properties. PBS provides high quality facility and workspace solutions to more than 55 federal agencies, disposes of excess or unneeded federal properties, and promotes the adoption of innovative workplace solutions and technologies. Through lease and purchase transactions, PBS delivers the workspace necessary to meet the respective missions of its federal customers. PBS is working with its federal customers to design the workplace of the 21st Century, seeking to reduce overall workspace needs and associated costs. These services are also coordinated to obtain the best available pricing.

Technology Transformation Service

The new Technology Transformation Service applies modern methodologies and technologies to improve the public's experience with government by helping agencies make their services more accessible, efficient, and effective, and by itself providing services that exemplify these values. The Service builds, provides, and shares technology applications, platforms, processes, personnel, and software solutions to federal agencies in an effort to help them better serve the public.

Office of Government-wide Policy

OGP uses data, analytics, and evidence-based evaluation approaches to help agencies drive efficiency, savings and improved mission performance in key administrative areas including: travel and transportation, acquisition, information technology, and green buildings. OGP helps drive agency behavior in these administrative areas through government-wide policy-making, performance standards, analysis and benchmarking of data, and regular reporting to the agencies and key stakeholders.

Staff Offices

The GSA staff offices support the enterprise. They ensure GSA is prepared to meet the needs of customers, on a day-to-day basis and in crisis situations. GSA has two independent staff offices (the Office of the Inspector General, the Civilian Board of Contract Appeals), and eleven GSA staff offices (Office of Administrative Services, Office of Congressional and Intergovernmental Affairs, Office of the Chief Financial Officer, Office of the Chief Information Officer, Office of Human Resource Management, Office of General Counsel, Office of Mission Assurance, Office of Government-wide Policy, Office of Strategic Communication, Office of Civil Rights and the Office of Small Business Utilization).

FTE Breakdown by Organization

In FY 2016, GSA utilized 11,178 full-time equivalents (FTE). This total represents a slight increase from FY 2015 and a 2.8 percent reduction from FY 2014. GSA reorganized its operations to transfer intact the activities of the Staff Offices organization of the Office of Citizen Services and Innovative Technologies & 18F into

the Technology Transformation Service, a new service in FY 2016

FTE are defined as the total number of hours worked, divided by the number of compensable hours applicable to each fiscal year. Compensable hours include leave, but not holiday and overtime hours.

	2014	2015	2016	FTE Change (2014-2016)	FTE Change (2015-2016)	2016 % Change from 2014	2016 % Change from 2015
Staff	2,885	2,874	2,676	(209)	(198)	(7.2)%	(6.9)%
FAS	3,115	2,911	2,904	(211)	(7)	(6.8)%	(0.2)%
PBS	5,502	5,266	5,331	(171)	65	(3.1)%	1.2%
TTS[1]	n/a	n/a	267	267	267	n/a	n/a
Total	11,502	11,051	11,178	(324)	127	(2.8)%	1.1%

[1] TTS was created in FY 2016, FTE previously aligned to Staff Offices.

PERFORMANCE SUMMARY

Mission and Goals

The GSA Mission is to deliver the best value real estate, acquisition and technology services to government and the American people

The scope of the work we do at GSA is vast and varied, but the mission is simple and to the point. We serve the government and the American people. Through implementing our mission, we aspire to achieve three strategic goals:

Savings – Provide savings to federal departments and agencies. We will use our purchasing power and expertise to deliver cost-effective real estate, acquisition and technology solutions to federal departments and agencies.

Efficiency – Improve the efficiency of operations and service delivery. We will streamline our operations to offer high quality real estate, acquisition, and technology services that is valuable to federal departments and agencies.

Service – Deliver excellent customer service. We will deliver excellent customer service to federal agencies and departments by making it easier to reliably meet their real estate, acquisition, and technology needs

GSA Priorities



DELIVERING BETTER VALUE AND SAVINGS

Using the purchasing power of the federal government we will reduce costs to our customer agencies, enabling them to focus on their core missions. We're going to improve upon this by finding more ways to solve our customers' problems in the coming year. We will look for new ways to help these agencies make their purchases smarter and more efficient. At the same time, we will look for new and innovative ways to maximize the value of our real estate assets.



SERVING OUR PARTNERS

Every day the work that we do helps our customer agencies focus on their missions. Partnership on all levels is critical to the success of GSA. Strong partnerships with partner agencies and vendors alike lead to good business decisions that create value and savings for our customers and the American taxpayer. It is our commitment to ensure that doing business with GSA is an easy and reliable experience. We are continuously improving our processes and systems to make them as simple and streamlined as possible.



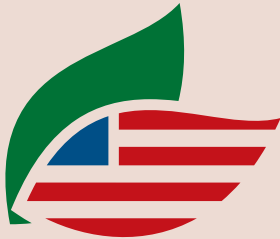
EXPANDING OPPORTUNITIES FOR SMALL BUSINESSES.

Small businesses are the engines that power the American economy. Contracting with these entrepreneurs is a win-win for both the federal government and the small business community. The government receives great service at great value, while small businesses have a great chance to grow their businesses and create jobs. GSA offers opportunities to small businesses across the country through our contract vehicles and through the contracts we award for other agencies.



LEADING WITH INNOVATION

GSA is a leader of innovation in public service. Among many firsts, we were the first government agency to move to cloud computing, setting an example for others to follow. In the coming years, we will continue to develop innovative, cost saving solutions that will be shared across the government.



MAKING A MORE SUSTAINABLE GOVERNMENT

Going green saves green. Environmentally friendly practices are good for the environment and for business. GSA is committed to both. As we work toward implementing sustainable practices and making our buildings and our fleet more environmentally-friendly, we will continue to work with vendors to make sustainable products and services readily available and affordable.



BUILDING A STRONGER GSA.

We must make sure our own employees at GSA are getting the same high quality support that we give our partner agencies. Offering the very best training and resources to our employees will be the cornerstone of this effort. By doing so, the agency will better serve its employees, while continuing to ensure that our customers are receiving great service. We will guarantee that when we do something, we will do it once and do it well.

Key Initiatives for FY 2016 Agency Planning and Execution

GSA will be recognized as an Economic Catalyst and Proactive Federal Partner while continuing our efforts around Operational Excellence. GSA positioned nine Key Initiatives, with supporting vision, to guide agency management planning and execution for the 2016 fiscal year.

Operational Excellence – GSA ensures our internal processes are efficient and representative of the environment in which we operate. This includes appropriate checks and balances to attain the highest level of performance while maintaining strong morale. Integrity, Transparency and Teamwork are the top line of every performance plan, universal for all of us.

Key Initiatives with supporting vision:

1. Ensuring a Strong, Diverse and Optimized Workforce
 - An organization that hires the best people, faster
 - Better talent development that assures GSA has energized people with the right skills
 - A ready workforce that reflects the people it serves
 - A highly engaged and empowered workforce that is excited to come to work
2. Strengthening Performance Management to Drive Outcomes
 - A strategic, data-driven workforce that uses data to track progress toward planned goals and to envision what is possible for GSA in the near- and long-term
 - A well communicated performance cycle that adds value to organizational and individual performance planning as well as to GSA's budget process
 - A focus on GSA employees and their performance plans as the key to creating a culture of performance

- A database that streamlines all reporting requirements and promotes data use through dashboards and other analytic tools
3. Enhancing GSA's Focus on Data-driven Decision-making
 - Put data in the hands of all employees, who can leverage it to make constructive decisions
 - Provide tools and help develop capabilities to conduct actionable data analyses
 - Centralize GSA data warehouses to facilitate development of novel connections across multiple datasets
 - Ensure that accessible, user-friendly dashboards provide regular updates on key metrics of GSA performance

Proactive Federal Partner – GSA anticipates the future needs of our customer agencies to make smarter more strategic decisions that provide better value to our stakeholders. GSA often collaborates with customer agencies to devise strategies and offer support to provide superior service to the American people and we have to continue to expand our outreach and increase our partnerships.

Key Initiatives with supporting vision:

1. Driving Acquisition Excellence through Category Management and the Acquisition Gateway
 - Customers will enjoy savings through decreased contract duplication and improved access to analytics, pricing, and other relevant information
 - Category Management will become a recognized catalyst to encourage federal cooperation in designing common requirements to allow strategic focus on achieving and improving federal procurement mandates e.g. small business utilization and sustainability

- FAS will leverage a data-driven business management culture to develop better solutions for the marketplace and drive increases in government-wide spend under management.
 - The Acquisition Gateway becomes the preferred workspace and market research tool for acquisition professionals
 - FAS drives improvements in key business measures including enterprise contracts utilization, Gateway adoption, small business utilization, and FAS utilization
2. Ensuring Strong Service for Agency Customers
 - GSA designs and evolves products and processes relying on a data-driven understanding of customer perspectives
 - Customer-centric thinking becomes a part of “business as usual” and is firmly engrained in GSA operations across business lines
 - GSA leads by example and works with other Federal government entities to instill a “customer first” mindset across the entire Federal government
 3. Reducing and Modernizing the Government's Real Estate
 - Agencies have modern work space that meets their missions and workforce needs
 - Agencies efficiently use their spaces, allowing them to maximize funds for their missions
 - Agencies have the data to identify potential opportunities for reducing space
 - GSA-occupied space is the role model for successful implementation of modern work space
 4. Improving the Federal Government's Technology
 - GSA is as widely associated with technology as it is with acquisitions and property
 - GSA is the most educated buyer and builder of tech products and services in the government

- Agencies find the right technology solution at GSA no matter what part of the organization they first contact
- GSA helps ensure that the government can access the most innovative technology companies and the newest technologies

Economic Catalyst – GSA strategically uses the resources that we have to carry out the agency mission to spur economic development among our small- and medium-sized enterprises and within communities across the nation. These practices have contributed to reducing our environmental footprint, creating valuable savings, and serving the communities where we reside in a positive way.

Key Initiatives with supporting vision:

1. Making It Easier for Suppliers to Work with the Government
 - Companies can do business with the government with as little burden and delay as possible
 - Well-designed tech interfaces allow vendors to register, update information, and interact with the government easily
 - Small business have the tools and support that they need to be successful when working with the government
 - Vendors understand the procurement process and know how to seek business
2. Enhancing the Community Benefit of Real Estate Decisions
 - Decisions about Federal agency leases, buildings and tenants should be made with a view to support local economic development goals, where appropriate.
 - GSA should work with local government officials and other Federal agencies to align with existing economic development goals
 - GSA will clarify how we consider transit access, sustainability, neighborhood connectivity, use of existing resources and broadband

Cross-Agency Priority Goals

GSA currently contributes to the following Cross-Agency Priority Goals: Cybersecurity, Climate Change, Customer Service, Smarter IT Delivery, Shared Services, Strategic Sourcing, Benchmark and Improve Mission-Support Operations, and Open Data. Visit performance.gov for more information on the GSA contributions and progress towards Cross-Agency Priority Goals.

Agency Priority Goals

These goals identify short-term outcomes that are meaningful to the public and demonstrate progress toward achieving the GSA strategic goals. Visit performance.gov for more information on GSA's performance against these priority goals.

1. **Generate savings through acquisition programs.** By September 30, 2017, GSA's Federal Acquisition Services (FAS) will save \$10.4 billion (\$5.2 billion during FY 2016 and \$5.2 billion during FY 2017) through its programs that provide goods and services to the federal government. FAS will achieve savings through steady growth of currently established programs and new initiatives that align with the future goals of the federal government.
2. **Increase the use of the Acquisition Gateway to improve federal purchasing decisions.** By September 30, 2017, GSA will increase the number of federal users of the Acquisition Gateway to 15,000 from a baseline of 1,000 in FY 2015 and the number of federal agencies accessing the Acquisition Gateway to 50, from a baseline of 15 in FY 2015.
3. **Generate savings by negotiating 55 percent of leases at or below market rates.** GSA will generate savings for taxpayers by negotiating 55 percent of the lease office space agreements at or below market rates in FY 2016 and FY 2017.

Agency Performance Goals

This section provides an overview of GSA's performance against strategic goals. A complete analysis of GSA's successes and challenges related to FY 2016 performance targets will be included in the Annual Performance Report.

Savings – Provide savings to federal departments and agencies. GSA uses our purchasing power and expertise to deliver cost-effective real estate, acquisition and technology solutions to federal departments and agencies.

GSA continues to make notable progress in providing savings to our federal customers. GSA is on track to achieve over five billion dollars in customer savings through its acquisition programs managed by the Federal Acquisition Services (FAS). The ongoing transformation of FAS to support category management and the development of an online portal for the acquisition community ensures that acquisition professionals can efficiently make well-informed purchases of services and goods. GSA has the lead for five government-wide acquisition categories: Facilities and Construction, Industrial Products, Office Management, Professional Services/Human Capital, and Travel. Furthermore, in collaboration with the Office of Management and Budget (OMB), FAS has established a Category Management Intelligence Program Management Office to support the ten government-wide category teams in developing and implementing acquisition strategies. Thirty departments and agencies are represented in one or more category teams.

GSA's Public Buildings Service (PBS) is achieving consistent progress in improving the federal utilization of workspace. PBS is on track to implement 32 workspace consolidations by the end of FY 2017. GSA developed a real property asset management tool and consolidation tool to help agencies manage their own real estate portfolios. The PBS portfolio of owned and leased buildings remains much lower than what

is experienced in the private sector of major commercial real estate markets, but continues to hover above the 3.2 percent performance target. All warranted lease contracting officers are now required to complete a negotiations course. Where appropriate, PBS promotes the use of longer leases

and increased competition for leases to spur lower rates for its customer agencies in non-government owned facilities. However, PBS did not meet the FY 2016 performance targets for negotiating leases below market rate and for percent of vacant space in inventory.

PERFORMANCE INDICATOR	2014 Actual	2015 Actual	2016 Target	2016 Actual	Status
Global Supply blended markup ↓	27.1%	15.0%	14.0%	13.1%*	Expect to meet target
Leases negotiated below market rate ↑	43%	59%	55%	49%*	Missed target
Acquisition Program Savings (\$b) ↑	4.75	5.17	5.19	3.51**	Expect to meet target
Percent of vacant space in inventory ↓	3.6%	3.4%	3.2%	3.5%	Missed target
Percent green business volume ↑	10.5%	8.8%	9.0%	9.5%	Target met
Alternative fuel vehicles purchased ↑	80.9%	82.8%	80.0%	82.6%	Target met

* Data represents through August 2016 rather than full fiscal year

**Results through third quarter of fiscal year 2016

Efficiency – Improve the efficiency of operations and service delivery.

GSA has streamlined its operations to provide high quality real estate, acquisition, and technology services at the best value to federal departments and agencies. Mission support functions, such as general administration, human resources, budget and financial operations, and information technology, continue to be streamlined and have resulted in annual indirect costs that are \$400 million less than what was spent in FY 2010. Real Property performance goals associated with capital construction projects and market-competitive cleaning and maintenance cost are expected to be near annual performance targets. GSA is making strides in improving the efficiency of human resources staffing as evidenced by a significant reduction in time to hire. To ensure future improvement in mission-support services, GSA has implemented service level agreements and easily accessed dashboards to assess quarterly performance against specific and quantifiable performance targets.

GSA is engaged in a Data to Decisions Program (D2D) to consolidate multiple data warehouses and enable cross-functional data analysis. GSA launched a data migration of 15 databases and developed 32 dashboards with drill-down capabilities into D2D as of the end of the second quarter of FY 2016, GSA

continues to leverage its Investment Review Board to prioritize IT projects and streamline costs.

Service – Deliver excellent customer service.

GSA strives to deliver excellent customer service to federal agencies and departments by making it easier for them to meet their real estate, acquisition, and technology needs.

GSA expects to meet all of its service performance goals for FY 2016. Tenant satisfaction with workspace showed slightly improved from FY 2015. Customer loyalty for acquisition service results are significantly up from FY 2015. Small and disadvantaged performance targets continue to be consistently met. In its most recent ratings (for FY 2015), GSA received an A+ from the Small Business Administration for its work in supporting small and disadvantaged businesses. GSA's new organization, Technology Transformation Services, launched or enhanced five digital government-wide shared services to help agencies more effectively use technology. New or updated shared services include:

- Contracting Cookbook: Practical resource on how to acquire digital services that are agile, application program interface (API)-first, user centered, open, cloud based -- all the things that government contracts should be but often are not.

PERFORMANCE INDICATOR	2014 Actual	2015 Actual	2016 Target	2016 Actual	Status
Capital projects on schedule ↑	97%	98%	90%	85%*	Missed target
Cleaning and maintenance costs within market range ↑	70%	81%	80%	80%*	Expect to meet target
Reduction in total GSA indirect costs from the FY 2010 baseline ↑	\$190M	\$407M	\$304M	\$400M	Target met
GSA information technology cost reduction from FY 2014 baseline ↑	n/a	8.6%	13.6%	4.3%	Missed target
Time to hire in days ↓	88	87	80	81.8*	At risk

* Results through third quarter of fiscal year 2016

- **Federal Crowdsourcing and Citizen Science Toolkit:** Contains information on best practices for setting up a citizen science project. The White House hosted a forum on the topic, where the toolkit was launched.
- **Apps.gov:** This open-sourced platform allows government buyers to easily access more information about software products and enables private sector companies to submit their own software products to be listed. The end goal of Apps.gov is to create a fully transactional marketplace between the private and public sectors.
- **Vote.USA.gov:** Provides information to potential voters, empowering citizens to take that important step toward registering to vote.
- **Cloud.gov:** A platform-as-a-service that agencies can use to develop secure and compliant applications in the cloud with limited procedural work and without having to stand up a private cloud infrastructure.

New and innovative methods (e.g., usability testing, customer experience maps, pulse surveys) are being implemented by GSA to improve assessment of customer perceptions and needs. A supplier satisfaction survey is under development. To make it easier for suppliers to work with the government, GSA's Federal Acquisition Service is developing information resources for current and potential suppliers to find and bid on contracts with the federal government. GSA's Public Buildings Services is developing its capabilities to assess and enhance the community benefit of real estate decisions. Opportunities are being identified to reutilize real property in downtown areas that are underserved by the economy.

PERFORMANCE INDICATOR	2014 Actual	2015 Actual	2016 Target	2016 Actual	Status
Tenant satisfaction with government-owned and leased space ↑	61%	63%	65%	65%*	Target met
Customer loyalty for acquisition services (10-point scale) ↑	7.4	7.1*	7.2	7.5	Target met
Percent of Multiple Award Schedule (MAS) business volume coming from small businesses ↑	37.2%	38.3%	33.0%	37.1%**	Expect to meet target
New digital government-wide shared services	5	8	5	5	Target met

* Survey methodology revised in FY 2015

**Results through third quarter of fiscal year 2016

FINANCIAL STATEMENTS SUMMARY AND ANALYSIS

Agency management is accountable for the integrity of the financial information presented in the financial statements. The financial statements and financial data presented in this report have been prepared from GSA accounting records in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Federal Accounting Standards Advisory Board (FASAB). The Consolidated Statements of Net Cost presents, by major program and activity, the revenues and expenses incurred to provide goods and services to our customers.

CONSOLIDATED FINANCIAL RESULTS

GSA Assets

GSA assets primarily include: Property, Plant and Equipment such as federal buildings, motor vehicles, and office equipment; Fund Balance with Treasury (FBwT); and debts owed to GSA from federal agencies and non-federal customers, mostly from sales transactions or uncollected rent (Accounts Receivable). In FY 2016, GSA reported Total Assets of \$40.3 billion compared to FY 2015 Total Assets of \$39.4 billion, representing a net increase of approximately \$933 million. Significant changes in assets include an increase in the overall FBwT of \$853 million, mainly due to significant earnings in the Federal Buildings Fund (FBF) which improved due to reduced spending against the American Recovery Reinvestment Act (ARRA) funding, as well as the elimination of debt financing commitments that resulted from the FY 2014 retirement of long-term debt.

Noteworthy, the carrying value of GSA owned buildings increased by \$1.1 billion. This increase was mostly due to the transfer of approximately \$889 million from Construction-in-Progress to the Buildings account. GSA has experienced a decline in overall funding for building investments, particularly as past ARRA-funded projects are being completed, which is resulting in reduced volumes of ongoing construction and alteration activities.

GSA Liabilities

GSA liabilities are primarily amounts owed to commercial vendors for goods and services received but not yet paid (Accounts Payable), amounts GSA owes to other federal entities, and long-term estimates of future environmental remediation costs. In FY 2016, Total Liabilities were \$6.9 billion; a net increase of \$330 million compared to FY 2015 Total Liabilities of \$6.5 billion. The increase is attributable to higher business volume in the Acquisition Services Fund (ASF) associated with Assisted Acquisition Services (AAS) and Integrated Technology Services. AAS business with Defense customers has increased significantly from the previous year.

GSA Revenue

The Consolidated Statements of Net Cost presents, by major program and activity, the revenues and expenses incurred to provide goods and services to our customers. GSA reported \$20.5 billion in revenue during FY 2016 compared to \$19.5 billion reported in FY 2015, an increase of \$969 million. Changes in revenues were most notable in the ASF, which experienced a

\$1,118 million increase primarily due to higher Assisted Acquisition Services (AAS) business volume with the Department of Defense and the Department of Homeland Security. In addition, the Fleet program implemented a \$128 million rebate in FY 2015 to pass cost savings from lower than expected petroleum expenses. Petroleum costs have remained below planned amounts throughout FY 2016. FY 2016 Expenses were \$20.2 billion compared to FY 2015 Expenses of \$19.2 billion, an increase of \$922 million. Net Revenue from Operations was \$290 million, a \$47 million increase compared to FY 2015, when Net Revenues from Operations were \$243 million. Changes in FBF and ASF net results are discussed further below.

FINANCIAL RESULTS BY MAJOR FUND – FEDERAL BUILDINGS FUND

The FBF is the primary fund of the PBS. PBS provides workplaces for federal agencies and their employees. FBF is primarily supported by rent paid to GSA from other federal agencies. Operating results are displayed on the Consolidating Statements of Net Costs, segregated into the two primary components of Building Operations – Government Owned, and Building Operations – Leased.

FY 2016 FBF gross revenue is \$11.3 billion, with over half of the revenue generated from five federal customer agencies as shown in the “FBF Top 5 Federal Customers” table.

FBF Top 5 Federal Customers	Revenues (\$ in Millions)	% of Total Revenues
Department of Justice	\$ 1,844	16.3%
Department of Homeland Security	\$ 1,795	15.9%
Federal Judiciary	\$ 1,165	10.3%
Social Security Administration	\$ 849	7.5%
Department of the Treasury	\$703	6.2%

FBF Net Revenue from Operations

FBF Net Revenue from Operations represents the amounts remaining after the costs of operating GSA owned and leased buildings are subtracted from revenue. Net Revenue from Operations is used to invest in major repairs and alterations (R&A) to federal buildings and to partially offset costs of constructing new federal buildings.

The primary source of revenue into the FBF is rent from our customer agencies and the primary source of expense is for rental of space and building operations. PBS also operates a Reimbursable Work Authorization (RWA) program, which provides customer agencies with alterations and improvements in GSA space, above what is specified in the base rental agreement.

The FBF reported net revenues in excess of expenses of \$605 million in FY 2016 compared to net revenues in excess of expenses of \$620 million in FY 2015, representing a decrease of \$15 million. While the net operating results were down, the primary cause was decreases in rental revenue of approximately \$77 million with an accompanied decrease in rent expense of approximately \$59 million. Historically revenue and expenses related to rent increase from year to year due to increases

in rentable square feet, cost escalations and tax increases. However, with the executive branch's initiative to maintain or reduce federal agencies total square footage for office and warehouse space, also known as "Freeze the Footprint," we have slowly begun to see those numbers fall.

FBF Obligations, Outlays and Collections

In the FBF, obligations are primarily the value of contracts awarded to commercial vendors for the construction of new federal buildings; for repairs and alteration, cleaning, utilities and other maintenance of GSA-owned federal buildings; and lease and related payments to commercial landlords for space leased by GSA for federal agencies.

FBF Obligations Incurred has decreased by \$287 million between FY 2016 and FY 2015. Gross Outlays decreased by \$185 million during FY 2016. FY 2016 outlays were lower mostly due to the continued depletion of funding received through the ARRA for new construction and building alterations. Offsetting Collections have decreased by \$95 million, which represent revenues collected from other federal agencies that offset expenditures made by GSA.

FBF Obligations and Outlays (Dollars in Millions)	FY 2016	FY 2015	Change (\$)	Change (%)
Obligations Incurred	\$10,700	\$10,987	\$(287)	(2.6)%
Gross Outlays	\$10,282	\$10,467	\$(185)	(1.8)%
Offsetting Collections	\$11,370	\$11,465	\$(95)	(0.8)%

FINANCIAL RESULTS BY MAJOR FUND — ACQUISITION SERVICES FUND

The ASF is a revolving fund that operates from the reimbursable revenue generated by its business portfolios rather than from an appropriation received from Congress. The operations of the ASF are organized into four business portfolios and three initiatives: General Supplies and Services (GS&S); Travel, Motor Vehicles, and Card Services (TMVCS); Integrated Technology Services (ITS); Assisted Acquisition Services (AAS); Integrated Award Environment; Common Acquisition Platform; and 18F. By leveraging the buying power of the federal government, FAS consolidates requirements across multiple agencies and uses its acquisition expertise to acquire goods and services at lower prices.

In FY 2016, the ASF realized \$9.4 billion in revenues. The majority of revenues were from the five agencies shown in the “ASF Top 5 Federal Customers” table, with over half of sales revenue generated from Department of Defense agencies.

ASF Top 5 Federal Customers	Revenues (\$ in Millions)	% of Total Revenues
Department of Defense	\$ 5,438	58.1%
Department of Homeland Security	\$731	7.8%
Department of Agriculture	\$426	4.6%
Department of Health and Human Services	\$312	3.3%
Department of Justice	\$294	3.1%

ASF Net Revenues from Operations

ASF Net Revenue from (Cost of) Operations represents the amounts remaining after the costs of goods and services sold and cost of operations. FAS operating expenses are subtracted from revenues earned during the year. Net Revenues from Operations are used to invest in the GSA Fleet, IT systems, other investments to improve FAS service levels, and to comply with regulatory and statutory requirements. In FY 2016 the ASF reported \$8 million net revenues in excess of costs, \$164 million more than the FY 2015 net costs in excess of revenues of \$156 million. In FY 2015, the ASF reported a net loss of \$88 million associated with discontinued operations. The closure of the Burlington, NJ warehouse depot in FY 2015 resulted in the recognition of \$49 million in expenses associated with the rent liability for the remaining lease term. In FY 2016, the lease termination liability was reduced by \$20 million after the execution of a sublease agreement. This created positive net operating results associated with discontinued operations in FY 2016. In TMVCS, a one-time rate reduction for the Fleet program was implemented in FY 2015 to return cost savings associated with lower than expected fuel prices to customer agencies. Fuel prices have remained low throughout FY 2016. In AAS, revenues and expenses have both increased by 20 percent due to higher business volume with the Department of Defense and the Department of Homeland Security. In ITS, the lower net operating results are primarily attributable to lower gross margins on sales in the Wide Area Network (WAN) and Regional Telecom programs. In addition, spending against prior-year retained earnings has increased for initiatives such as the Public Key Infrastructure (PKI) program, the Cloud Services Executive Business Case and the Connect.gov program. Under the category of Other Programs, costs increased by \$75 million, with significant expenses incurred in support of the Integrated Award Environment activities and the Common Acquisition Platform for software license acquisitions, application design and implementation, and the transition to

a cloud-based infrastructure. The majority of the expenses for these projects were funded through the use of prior-year retained earnings rather than new reimbursable agreements with other federal agencies, resulting in the net cost exceeding revenues by \$143 million for the Other Programs category.

ASF Obligations, Outlays, and Collections

ASF obligations and outlays are primarily driven by contracts awarded to commercial vendors providing goods and services in support of the

ASF portfolios. Obligations Incurred increased by \$1,119 million between FY 2015 and FY 2016, due primarily to higher business volume with Defense customers in the AAS programs and an increase in purchases of motor vehicles for the GSA Fleet program in TMVCS. Higher business volumes also contributed to the increase in Gross Outlays and Offsetting Collections.

ASF Obligations and Outlays (Dollars in Millions)	FY 2016	FY 2015	Change (\$)	Change (%)
Obligations Incurred	\$11,633	\$10,514	\$1,119	10.6%
Gross Outlays	\$10,618	\$9,886	\$732	7.4%
Offsetting Collections	\$10,408	\$9,888	\$520	5.3%

Limitations of Financial Statements

The principal financial statements report the financial position and results of GSA operations, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from GSA books and records in accordance with GAAP for federal entities and the format prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government.

GSA MANAGEMENT ASSURANCES

STATEMENT OF ASSURANCE

The U.S. General Services Administration (GSA) management is responsible for managing risks and establishing and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA).

In accordance with OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, GSA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations. Based on the results of the assessment, GSA can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2016.

GSA transitioned the administration of the Army Child Care Program to an external contractor, having acknowledged management challenges with the program in 2015. This fiscal year, GSA also finalized the governance processes and control activities related to the financial management provided by its Federal shared service provider (FSSP), the U.S. Department of Agriculture (USDA). This consisted of collaborating on internal controls and implementing monitoring activities.

GSA's Public Buildings Service implemented a new contract writing system, Electronic Acquisition System Integration (EASi). EASi interfaces directly with GSA's accounting system and represents substantial progress by allowing real time recording of contractual actions in the accounting system. As with any new system and process, the migration of data proved challenging and affected some of our

financial operations. In response, GSA implemented a robust set of internal controls and believes these issues will not adversely affect the agency's financial statements.

The 18F program is a digital services delivery program within the Technology Transformation Service. GSA acknowledges that there have been challenges with internal controls in 18F and has already taken significant steps to strengthen them.

In response to the EASi and 18F challenges, GSA implemented a robust set of internal controls and does not believe these issues adversely affected the financial statements.

The Federal Financial Management Improvement Act of 1996 (FFMIA) and OMB Circular A-123 Appendix D require agencies to implement and maintain financial management systems that are substantially in compliance with Federal financial management systems requirements, Federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and the U.S. Standard General Ledger (USSGL) at the transaction level. GSA assessed its degree of substantial compliance by utilizing the FFMIA Risk Model. GSA financial management systems were found to substantially comply with FFMIA as of September 2016.



Denise Turner Roth
Administrator
November 08, 2016

GSA MANAGEMENT AND INTERNAL CONTROL PROGRAM

Federal Managers' Financial Integrity Act Section 2

FMFIA requires agencies to establish internal control and financial systems that provide reasonable assurance that the three objectives of internal control are achieved:

1. Effectiveness and efficiency of operations:
2. Compliance with applicable laws and regulations: and
3. Reliability of Financial Reporting

FMFIA requires that the head of the agency, based upon an evaluation, provide an annual Statement of Assurance on whether the agency has met these requirements. OMB Circular No. A-123 Management's Responsibility for Enterprise Risk Management and Internal Control, implements FMFIA and defines management's responsibility for internal control in federal agencies. FMFIA also requires agencies to establish internal controls over their programs, financial reporting, and financial management systems. GSA internal control reviews are conducted for agency program components. The goals of these reviews are to identify and mitigate significant risks in a timely manner. The reviews results are briefed to the Management Control Oversight Council (MCOC) chaired by the Deputy Administrator. The MCOC also leads the GSA efforts to address financial management audit findings in a timely manner and oversees the development and execution of the corrective action plans. GSA evaluates assurance on effectiveness of internal controls over operations, management systems, and financial reporting for FY 2016 with consideration to all internal and external reviews of the agency. The "Summary of GSA's Financial

Statement Audit in the Management Assurances" table is provided in the "Other Information" section of this report.

In FY 2016, GSA continued to strengthen management practices and internal controls to assure the integrity of its programs, operations, business and financial management systems. This effort increased focus on risk management and risk analysis of all its programs. GSA completed an initial fraud risk assessment, and established an enterprise risk management working group. GSA successfully completed all the requirements of OMB Circular No. A-123 and the Office Federal Procurement Policy's Memorandum entitled *Conducting Acquisition Assessments under OMB Circular No. A-123, the FMFIA, compliance with Federal Financial Management Improvement Act (FFMIA), and the Federal Information Security Management Act (FISMA)* as the foundation of effective management operations and internal controls.

In FY 2016, the Procurement Management Review (PMR) Division of the Procurement Management Division reporting directly to the GSA Senior Procurement Executive in the Office of Acquisition Policy, Office of Government-wide Policy and the OCFO A-123 Internal Control Review team conducted parallel financial and acquisition reviews across the agency. PMR reviews assessed the effectiveness of internal controls over procurement management. By analyzing activities from both an acquisition and financial perspective, GSA addressed control issues that involved financial and acquisition functions. Any identified control deficiencies are tracked through a database application and monitored for timely and accurate implementation of corrective actions.

Overall the internal control program at GSA is functioning soundly and can provide reasonable assurance that its internal control over financial reporting is operating effectively and with no material weaknesses related to the design or operation of internal controls over financial reporting.

Federal Managers' Financial Integrity Act Section 4

GSA evaluates its financial management systems annually for compliance with federal financial system requirements, applicable federal accounting standards and USSGL recording and reporting requirements. In FY 2016, GSA transferred its core accounting system, Pegasys, to its shared service provider the United States Department of Agriculture (USDA). Per OMB Circular No. A-123, GSA continues to be responsible for evaluating internal controls over financial management information processed by USDA. GSA worked with USDA to define roles and responsibilities for processing financial management transactions, evaluate financial management system controls and compliance with certification and accreditation reviews, conduct OMB Circular No. A-123 reviews, and evaluate risk indicators contained in the FFMIA Compliance Risk Model.

GSA also reviewed pertinent audit reports issued in FY 2016, and discussed the details of pertinent systems-related control issues with senior managers and auditors.

In assessing compliance with FFMIA, GSA adheres to the implementation guidance provided by OMB and considers the results of GSA OIG and Government Accountability Office audit reports, annual financial statement audits, FISMA compliance reviews, risk assessments, and other systems-related review and monitoring activities. Based on all information assessed, the administrator has determined that GSA financial management systems are in substantial compliance with FFMIA requirements for FY 2016.



Federal Information Security Management Act

FISMA requires federal agencies to implement a mandatory set of processes and system controls designed to ensure the confidentiality, integrity, and availability of system-related information. The processes and systems controls in each federal agency must follow established Federal Information Processing Standards, National Institute of Standards and Technology standards (NIST), and other legislative requirements pertaining to federal information systems, such as the Privacy Act of 1974.

To facilitate FISMA compliance, GSA maintains a formal program for information security management focused on FISMA requirements, protecting GSA IT resources, and supporting the GSA mission. This program consists of policies, procedures, and processes to mitigate new threats and anticipate risks posed by new technologies. Designated GSA information system security managers and information system security officers implement information security requirements in accordance with FISMA requirements and GSA policies.

GSA continues to address weaknesses identified in its Plan of Action and Milestones. GSA annually provides security and privacy awareness training for over 15,000 employees and contractors. Privacy Impact Assessments were completed on all applicable systems. GSA continues to implement and mature a continuous monitoring program in accordance with NIST, Department of Homeland Security (DHS), and OMB direction.

Information and Financial Management Systems Framework

The Chief Financial Officers Act assigns responsibilities for planning, developing, maintaining, and integrating financial management systems within federal agencies.

GSA currently maintains E-Payroll applications; portions of its legacy core accounting system, and general support systems, which operate on a variety of hosting platforms to support various feeder applications.

In FY 2016, GSA continued its progress in financial systems modernization and improvement in support of this financial management systems framework. To achieve its strategic goals GSA will continue efforts to:

- Streamline, consolidate, and modernize financially oriented general support systems
- Complete the transfer of financial system ownership to USDA

These strategies support GSA financial management system goals of reducing financial system operating and maintenance costs, and enhancing compliance and IT security controls.



FINANCIAL SECTION

LETTER FROM THE CHIEF FINANCIAL OFFICER

On behalf of the United States General Services Administration (GSA), I am pleased to provide the fiscal year 2016 Agency Financial Report (AFR). The AFR is a culmination of our financial management community's year-round efforts to accurately track and disclose GSA's financial status, and to ensure that the agency continues to act as a good steward of public funds. I sincerely thank all GSA financial personnel for their dedication, diligence, and excellent work throughout the year.

In GSA's complex and changing environment, an active and empowered Office of the Chief Financial Officer (OCFO) is critical in achieving effective oversight of financial expenditures and ongoing improvements in mission critical services. During FY 2016, OCFO continued to implement organizational and procedural changes aimed at managing this important balance. OCFO supports our customers in achieving their respective missions and serves as a fiscal guardian of public funds.

To further enhance operational performance and efficiencies, the OCFO implemented an aggressive transformation in FY 2016 while continuing to reduce operating costs. Our approach to building a high-performing finance organization focused on three core elements: Organizational Structure and Management; Process Alignment and Improvement; and Operational Excellence. I am proud to report that significant progress has been made, resulting in substantial improvements across all three focus areas.



OCFO's key achievements for FY 2016 include:

- Provided leadership in strengthening GSA financial controls and processes, achieving our second consecutive year without a material weakness and reducing significant control deficiencies. In addition to improved financial controls performance, this is the 9th consecutive year of an unmodified audit opinion.
- Executed the second year of OCFO's transformation into a high performing organization by improving our operational metrics, outperforming 94 percent of our

Service Level Agreement targets and increasing employee satisfaction, all while reducing OCFO costs by an additional 5 percent.

- Reorganized over 300 staff members in the Office of Regional Financial Services, streamlining operations to increase quality, performance, control, and efficiency.
- Refined our partnership with GSA's Financial Management Line of Business (FMLOB) shared services provider, the United States Department of Agriculture, to provide effective financial transaction services to GSA while actively supporting the Federal Government's initiative to expand shared services.
- Launched a broad Communities of Practice (COP) initiative to identify process improvement and standardization opportunities in regional finance, beginning implementation of nationwide process standards, and integrating staff from GSA CFO, GSA business lines, and USDA.

Organizational Structure and Management

OCFO took aggressive actions in refining its organizational structure, enhancing employee engagement, realigning regional financial support services and divesting activities outside our core mission.

- OCFO instituted a cross-functional team comprised of 30 staff members to identify opportunities to improve staff engagement. The team was very active in FY 2016, designing, improving, and implementing multiple staff engagement initiatives including staff recognition programs, informational events, and online resources. In FY 2016, OCFO achieved the highest employee satisfaction

scores since the consolidation of regional financial services in FY 2012, yielding results 6.2 percentage points higher than the government average.

- During FY 2016, OCFO collaborated with leadership in the Public Buildings Service (PBS) to design a reorganization strategy for regional financial services. The reorganization effort was launched in February 2016 by consolidating staff into a new zonal model that streamlines regional financial services, allows for increased process standardization and improvement, and enhances functional specialization of staff. The new structure also enables more efficient and consistent service delivery to our customers and mitigates the collective action problem associated with managing 11 different regions and processes. As part of the reorganization, a new division in each zone – the Financial Management Division – was established and charged with promoting consistent and robust oversight of internal controls, increased audit response and support, and collaboration with the Office of Financial Management, which is tasked with enterprise-level management of the audit response, internal controls, and financial reporting.
- GSA divested its Childcare Subsidy Programs during FY 2016, allowing OCFO to increase its focus on activities more aligned with its core mission and functions. OCFO mobilized additional resources, implemented new processing software, and re-engineered our processes to eliminate a significant backlog in the Army program and reduce application processing times. OCFO worked with Army to move their program to a private vendor, completing the transition in October 2016. We also transitioned Non-Army Childcare Subsidy programs to another Federal agency

Process Alignment and Improvement

OCFO improved financial controls and performance by actively addressing audit findings, eliminating manual processes and upgrading technology.

- The Office of Financial Management achieved significant improvement in the FY 2015 Financial Statement Audit by actively managing the elimination of a prior year material weakness and reducing the number of significant deficiencies. To ensure similar results for the FY 2016 audit, the Office of Financial Management has continued to increase its collaboration with the Management Control Oversight Council, which includes a dedicated team of senior leaders across GSA charged with oversight of management controls and corrective actions.
- OCFO collaborated closely with PBS and GSA IT to implement an interface to link PBS's new acquisition system with GSA's financial system of record, Pegasys. This effort helps GSA eliminate the manual input of thousands of financial documents and reduces the risk of errors in financial data. OCFO will continue to facilitate GSA's efforts to refine any data entry issues associated with the new interface, and to ensure financial statements and data are accurate.
- Another focus area for OCFO in FY 2016 was the enhancement and automation of financial data reporting and management. OCFO's work on the Billing and Accounts Receivable (BAAR) initiative enabled GSA to retire the legacy National Electronic Accounting and Reporting system which had been operational for nearly 40 years. The implementation of BAAR establishes one consolidated billing system that streamlines the billing process, supports paperless billing, and incorporates one consistent format for enterprise-wide billing.

Operational Excellence

OCFO advanced operational excellence by increasing collaboration through communities of practice, aligning performance metrics with financial and program operations, and measuring outcomes. These efforts reflect our movement toward building a high-performing OCFO and are reflected in our strategic goals and objectives.

- OCFO established communities of practice to identify opportunities to standardize processes, increase staff engagement, and share functional knowledge related to OCFO's core business functions. The initiative was kicked off during FY 2016 and will be fully implemented in FY 2017, with the goal of utilizing over 300 staff members to find ways to continually improve our financial processes and controls.
- OCFO completed the FY 2016-2020 OCFO Strategic Plan after an assessment and review of the organization's key functions and operating priorities. The plan establishes new mission, vision, and value statements as well as strategic goals, objectives, and initiatives to establish our strategy for building a high-performing CFO organization.
- OCFO updated its performance metrics and performance management processes to align with organizational changes, and to drive improvements in financial operations. In FY 2016, OCFO established service level agreements and monthly operational reviews to carefully monitor key operational indicators for processes that impact our customers. OCFO met 94 percent of our service level agreement metrics, with the majority conveying substantial improvement during the performance year.
- OCFO established 18 monthly operational metrics for our financial operations supporting PBS with 40 percent achieving maximum

performance levels and 50 percent improving performance levels throughout the year.

- As a result of both broad scale transformation and increased focused on operational performance, OCFO's internal customer satisfaction index increased 2.2 percentage points from FY 2015 to FY 2016.

Conclusion

Over the last two years we have made significant progress in developing a high performing culture of excellence and integrity by driving change and transformation. As a trusted partner with GSA's service and staff offices, the leadership provided by the OCFO continues to strengthen GSA's financial controls, performance and decision making.

FY 2017 will present OCFO with additional opportunities to refine our organizational structure, deliver planned improvements in our technology and business processes, and make key investments in our capabilities and staff. We will continue strengthening financial controls, realizing operating efficiencies and increasing employee satisfaction.

This is an exciting time for GSA OCFO and I look forward to another year of progress. I appreciate all the support I receive from staff as we work to improve our operations and ensure GSA remains a good steward of public funds.



Gerard E. Badorrek
Chief Financial Officer
November 08, 2016



U.S. General Services Administration
Office of Inspector General

NOV 09 2016

MEMORANDUM FOR: DENISE TURNER ROTH
ADMINISTRATOR (A)

GERARD BADORREK
CHIEF FINANCIAL OFFICER (B)

FROM: CAROL F. OCHOA 
INSPECTOR GENERAL (J)

SUBJECT: Independent Auditor's Report on GSA's FY 2016
Financial Statements

The Chief Financial Officers Act of 1990 (P.L. 101-576), as amended, requires the GSA Inspector General or an independent external auditor, as determined by the Inspector General, to audit GSA's financial statements. Under a contract monitored by my office, KPMG LLP (KPMG), an independent public accounting firm, performed the Fiscal Year 2016 Financial Statements Audit of GSA. KPMG performed the audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on GSA's financial statements or conclusions about the effectiveness of internal control or on whether GSA's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996; or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 8, 2016 and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We appreciate the courtesies and cooperation GSA extended to KPMG and our staff during the audit. If you have any questions, please contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachments

1800 F Street, NW, Washington, DC 20405



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Administrator and Inspector General
United States General Services Administration:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. General Services Administration (GSA), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements"). We have also audited the individual balance sheets of the Federal Buildings Fund and the Acquisition Services Fund (hereinafter referred to as the "Funds") as of September 30, 2016 and 2015 and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended (hereinafter referred to as the Funds' "individual financial statements") and the related notes to the Funds' individual financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements and the Funds' individual financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements and the Funds' individual financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and the Funds' individual financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and the Funds' individual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the Funds' individual financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements and the Funds' individual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements and the Funds' individual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Funds' individual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



Opinions on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GSA as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, the Funds' individual financial statements referred to above present fairly, in all material respects, the financial position of each of the individual Funds as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or the Funds' individual financial statements or supplementary information required by the Federal Accounting Standards Advisory Board (FASAB). The information on these websites has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements and the Funds' individual financial statements. Such information, although not a part of the basic consolidated financial statements and the Funds' individual financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements and the Funds' individual financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements and the Funds' individual financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements and the Funds' individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the basic consolidated financial statements and on the Funds' individual financial statements as a whole. The information in the Other Funds and Intra-GSA Eliminations sections in the consolidating and combining financial statements in Schedules 1 through 4 (hereinafter referred to as "consolidating information"), and the information in the Table of Contents, Letter from the Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information sections of GSA's 2016 *Agency Financial Report* is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements or the Funds' individual financial statements.

The consolidating information in Schedules 1 through 4 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional



procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information in Schedules 1 through 4 is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The information in the Table of Contents, Letter from the Administrator, How GSA Benefits the Public, Letter from the Chief Financial Officer, Inspector General's Transmittal Memorandum of the Independent Auditors' Report, and Other Information sections of GSA's 2016 *Agency Financial Report* has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and Funds' individual financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audits of the consolidated financial statements and the Funds' individual financial statements as of and for the year ended September 30, 2016, we considered GSA's and the individual Funds' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements and the Funds' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of GSA's and the individual Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of GSA's and the individual Funds' internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Exhibit I, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether GSA's consolidated financial statements and the Funds' individual financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

We also performed tests of GSA's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.



GSA's and the Funds' Responses to Findings

GSA's and the Funds' responses to the significant deficiencies identified in our audit are described in Exhibit I. GSA's and the Funds' responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and the Funds' individual financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of GSA's and the individual Funds' internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 8, 2016

Independent Auditors' Report
Exhibit I – FY 2016 Significant Deficiencies

I. Classification of Capital and Operating Leases¹

GSA maintains a significant portfolio of leased real estate assets and processes approximately \$7 billion in lease payments annually. During fiscal year (FY) 2016, GSA continued to implement corrective actions to address internal control weaknesses and strengthen internal controls over lease accounting. However, we continue to note deficiencies in the area of classification of capital and operating leases.

Conditions

Controls over the classification analysis of leases to ensure the proper accounting for and disclosure of leases in accordance with applicable accounting standards did not operate effectively during the period under audit, as evidenced by the following conditions:

1. The lease classification analysis contained inaccurate data that did not agree with the final lease terms effective at lease inception (e.g., annual rent, operating costs, real estate taxes, insurance, maintenance and repair reserve, rent abatement, and rent commencement date).
2. Discount rates used in the lease classification analysis were incorrect.
3. Regional personnel did not consistently adhere to existing policies, procedures, and guidance to ensure the lease classification analysis is updated and accurate when lease terms and lease inception dates change from those initially estimated. In addition, regional personnel completing the lease classification analysis are not always knowledgeable of accounting standards for lease classification.
4. GSA monitoring procedures over the current lease classification process are not designed at a level of precision sufficient to identify, in a timely manner, situations in which a lease may have been initially misclassified and prevent misstatements in the year-end financial statements.

Criteria

1. Statement of Federal Financial Accounting Standards (SFFAS) No. 6: *Accounting for Property, Plant, and Equipment*.
2. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 840, *Leases*. (FASB ASC 840)
3. Office of Management and Budget (OMB) Circular No. A-11 (OMB Circular No. A-11), Appendix B, *Budgetary Treatment of Lease-Purchases and Leases of Capital Assets*.
4. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* – Principles 10 and 16 – *Design Control Activities* and *Perform Monitoring Activities*, respectively.

Cause and Effect

GSA continues to primarily use OMB Circular No. A-11, Appendix B budget scoring analysis requirements to determine lease classification for financial reporting purposes rather than performing a separate and distinct lease classification analysis per applicable accounting standards (i.e., SFFAS No. 6 and FASB ASC 840). While the required analyses may overlap for certain leases, the purpose and timing of the analysis for budget scoring required by OMB Circular No. A-11, Appendix B, when requesting funding for a lease contract, differs from the purpose and timing of a lease classification analysis required by SFFAS No. 6 and FASB ASC 840 at lease inception.

¹ This finding applies to the Federal Buildings Fund and GSA as a whole.

Independent Auditors' Report Exhibit I – FY 2016 Significant Deficiencies

In addition, we continue to note that regional personnel do not follow established policies and procedures on a consistent manner and have established practices over lease classification analysis that are not always consistent with the established policies and procedures. Further, certain monitoring procedures over the classification of leases are detective in nature and were not designed at the same level of precision as controls designed to ensure the accurate initial classification of capital and operating leases in accordance with applicable accounting standards.

If left uncorrected, these conditions present an increased risk that significant misstatements in the classification of leases in the financial statements and related disclosures will not be prevented, or detected and corrected by GSA management in the normal course of performing their assigned functions.

Recommendations

We recommend that GSA implement the following to improve controls over the classification of capital and operating leases from a financial reporting perspective:

1. Establish a separate and distinct process with appropriate controls to perform a lease classification analysis for financial statement purposes at lease inception, as required by applicable accounting standards separate from the budget scoring analysis performed. The lease classification analysis should include a comprehensive checklist or other standard documented steps based on relevant accounting criteria and guidance, and should be performed and reviewed by personnel familiar with and knowledgeable of the accounting criteria for capital and operating leases.
2. Include consideration of lease classification controls within the scope of OMB Circular No. A-123, *Management's Responsibility for Internal Control* testing to ensure these controls are designed properly, operating effectively, and performed in a consistent manner.
3. Consider the need for additional training and enforcement of policies and procedures to ensure personnel responsible for lease classification follow established policies and controls in a consistent manner.

Management Response

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

II. Controls over Budgetary Accounts and Transactions²

Budgetary accounts are a category of the general ledger accounts where transactions related to receipts, obligations, and disbursements of budgetary authority—the authority provided by law to incur financial obligations that will result in outlays—are recorded.

Conditions

During FY 2016, GSA continued the implementation of corrective actions to address internal control weaknesses and strengthen internal controls over budgetary accounts and transactions, including the implementation of an automated interface between the contract management system and the financial management system. Additional remediation is scheduled to continue in FY 2017. However, we continue to note weaknesses in controls over budgetary accounts and transactions. Specifically, we noted the following control deficiencies:

1. Controls did not operate effectively to provide reasonable assurance that contract and financial information, used to initiate and manage contract actions, and entered into GSA's contract management systems or generated manually outside of these systems, is accurately, timely, and completely interfaced with GSA's financial management system and properly reflected in the financial statements.

² This finding applies to the Federal Buildings Fund and GSA as a whole.

Independent Auditors' Report
Exhibit I – FY 2016 Significant Deficiencies

2. Exception reports from the contract management system containing interface errors were not properly and timely reconciled and resolved.
3. In order to address the risk of contract financial information not being captured properly or timely into the financial management system, GSA continues to rely on a number of manual-intensive reconciliation controls. However, such controls are detective in nature and were not designed at the same level of precision as controls designed to ensure accurate initial recording and review of transactions entered in the contract management systems and in the financial management system.
4. The financial management system has automated funding and spending controls to ensure that budget authorities are not exceeded at each budget level. Such controls include a hard-edit feature, which denies the user the ability to process further obligating documents if the entry will exceed the respective authority available amount. However, we continue to note that GSA management can manually override these automated funding and spending controls while processing budgetary transactions. As a compensating control, GSA reviews the audit log to determine whether the automated funding and spending controls are turned off for a valid reason and subsequently turned back on after processing. However, the audit log monitoring control is manual in nature and is not designed properly to include all transactions entered in the financial management system when the automated budgetary funding and spending controls are manually overridden.

Criteria

1. OMB Circular No. A-11, Section 20.5 (c).
2. *GAO Standards for Internal Control in the Federal Government* – Principles 10 and 16 – *Design Control Activities* and *Perform Monitoring Activities*, respectively.

Cause and Effect

The main contributing factors for the control deficiencies over budgetary accounts and transactions continue to be:

1. Errors and discrepancies in the integration of financial and acquisition systems which result in delays in processing and recording of budgetary accounting transactions based on actual contracting activity. The volume of contract actions and frequent adjustments and modifications to contracts in the normal course of business, as well as discrepancies in the interface that records transactions in the financial system, result in a significant manual monitoring and processing burden which is susceptible to error.
2. Lack of sufficient oversight of the contracting function and overall operating discipline as evidenced by contracting and budgetary activities that impact financial reporting not being performed consistently at the regional level.
3. Mitigating controls are not properly designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

As a result of the ineffective controls above, GSA management continues to rely on a number of compensating processes, controls, and manual efforts to prepare reliable financial statements throughout the year and at fiscal year-end. Inaccurate financial information in budgetary accounts may lead to errors in funds control as records of available funds at any point in time may not fully reflect all actual contract actions impacting those funds. If not corrected, these deficiencies will continue to expose GSA to an increased risk of misstatements in its financial statements and possible violations of laws and regulations.

Independent Auditors' Report
Exhibit I – FY 2016 Significant Deficiencies

Recommendations

We recommend GSA continue to implement the following to improve controls over budgetary accounts and transactions:

1. Continue efforts to fully integrate the contract management system, using system functionality consistently and as intended, with accurate interface to the financial management system.
2. Continue efforts to implement effective monitoring of the interface process.
3. Continue reconciliation efforts over contracts not properly reflected in the financial management system, including reconciliation procedures over contract management system interface exceptions reports, to ensure all exceptions are addressed timely and accurately.
4. Establish effective controls over reports used in the monitoring and reconciling process to ensure complete and accurate reports are used when monitoring and reconciling contract actions to accounting entries.
5. Continue to provide additional training on contract management system functionality.
6. Enforce policies and procedures with regional personnel to ensure that contracting and budgetary activities are consistently performed and accurately completed, contracting activities are recorded in the appropriate subsidiary ledger and the financial management system timely, and required documentation is completed and maintained.
7. As part of GSA monitoring functions, including OMB Circular No. A-123 testing, test relevant controls over the contract management system and its interface to the financial management system to ensure such controls are designed properly and operating effectively.
8. When budgetary funding and spending controls are lifted, documentation should be maintained to capture the detail of each transaction processed, when these controls are lifted, in the quarterly audit log. When completed, the audit log review should be documented and authorized as completed.
9. Design a completeness check to ensure no unauthorized budgetary funding and spending control lifts have occurred in the financial management system. If a system generated report is created, design procedures to ensure the report is capturing complete and accurate information related to the entries posted in the period the controls are lifted.

Management Response

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

III. General Controls over Financial Management Systems³

In FY 2016, we continued to note weaknesses in information technology controls designed to protect GSA's financial management systems as required by OMB Circular No. A-130 (Revised), *Management of Federal Information Resources*. Specifically, we identified control deficiencies over access, configuration management general controls, and the design of general information technology controls, as follows.

³ This finding applies to the Acquisition Services Fund and GSA as a whole.

Independent Auditors' Report

Exhibit I – FY 2016 Significant Deficiencies

a. Access Controls

Conditions

Effective access to programs and data controls are implemented to prevent unauthorized access and users from performing tasks not assigned to them and logging and monitoring the activity performed to detect any unscrupulous, unauthorized, or inappropriate activity that could lead to a compromise of the confidentiality, integrity, and availability of the data residing on the information system. Specifically, throughout the period under audit, we identified the following weaknesses in controls over access to programs and data:

1. Controls were not designed properly, consistently implemented, or fully effective over user and administrator accounts included in applications, databases, and operating systems. Specifically, we noted control deficiencies over:
 - a. Access authorization (in 5 of 10 systems tested),
 - b. Periodic recertification of system access (in 3 of 10 systems tested), and
 - c. Timely removal of separated (in 3 of 10 systems tested) and inactive accounts (in 1 of 10 systems tested).
2. Controls were not designed properly, consistently implemented, or fully effective over logical access to key financial in-scope systems. Specifically, we noted control deficiencies over password configuration settings, session lockout and termination, and inactivity for applications, databases, and operating systems, (in 7 of 10 systems tested).
3. Controls were not designed properly, consistently implemented, or fully effective over audit logs including configuration, review, documentation of review, and access to audit logs for applications, databases, and operating systems (in 5 of 10 systems tested).
4. Risks related to separation of duties violations continued to exist in the application, development, and production environments (in 3 of 10 systems tested).

Criteria

1. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* – Principle 10 and 11 – *Design Control Activities* and *Design Activities for the Information System*, respectively.
2. The National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations* (NIST 800-53, Revision 4): AC-2 *Account Management*, AU-2 *Audit Events*, IA-4 *Identifier Management*, and IA-5 *Authenticator Management*.

Cause and Effect

GSA did not enforce documented system-specific, GSA-wide, and NIST policies and procedures consistently. As a result, access to programs and data controls were not designed and implemented properly or operating effectively in FY 2016. In addition, certain GSA system-specific or GSA-wide policies and procedures did not require the documentation and maintenance of supporting control documentation or review evidence. Further, GSA's corrective actions for certain prior year conditions were not applied to all GSA applications and did not address the root causes of the control exceptions identified.

Without implementing effective access to programs and data controls, the risk increases that unauthorized users could perform tasks not assigned to them and activity performed would not be prevented, logged, and monitored, therefore increasing the risk that unscrupulous, unauthorized, or inappropriate activity could be performed and not detected, which could lead to a compromise in data confidentiality, integrity, and availability.

Independent Auditors' Report
Exhibit I – FY 2016 Significant Deficiencies

b. Configuration Management Controls

Conditions

Effective configuration management controls prevent unauthorized fraudulent data or malicious code into the application and/or database without detection, which could lead to the compromise of the confidentiality, integrity, and availability of the data residing on the information system. Throughout the period under audit, we identified the following weaknesses in controls over configuration management:

1. Database and operating system patches were not documented, authorized or tested prior to implementation into the production environment (in 4 of 10 systems tested).
2. A complete and accurate listing of operating system patches could not be generated (in 1 of 10 systems tested).
3. A feeder system was configured incorrectly to assign incorrect invoice acceptance date data (in 1 of 10 systems tested).
4. Vulnerability scans were performed and results were discussed by GSA on a periodic basis; however, evidence of review by the Information System Security Officer was not consistently documented or maintained (in 8 of 10 systems tested).

Criteria

1. GAO *Standards for Internal Control in the Federal Government* – Principles 10, 11, and 16 – *Design Control Activities, Design Activities for the Information System, and Perform Monitoring Activities*.
2. NIST 800-53, Revision 4: *SI-2 Flaw Remediation*.

Cause and Effect

Due to GSA management not enforcing documented system-specific, GSA-wide, and NIST policies and procedures, configuration management controls were not designed and implemented properly or operating effectively. In addition, certain GSA system-specific or GSA-wide policies and procedures did not require the documentation and maintenance of supporting control documentation or review evidence.

Without implementing effective configuration management controls, the risk increases that unauthorized access could be permitted to introduce fraudulent data or malicious code into the application and/or database without detection and therefore increase the risk that the confidentiality, integrity, and availability of the data residing on the information system is compromised.

Without evidence of periodic vulnerability scan reviews, GSA cannot properly monitor network security controls designed to protect the network and data from intruders and attackers. This increases the risk that these weaknesses could lead to unauthorized access or attacks against the network and therefore increases the risk that the confidentiality, integrity, and availability of the data residing on the information system could be compromised.

c. Design of General Information Technology Controls

Conditions

General information technology controls should be designed and implemented using the required criteria based on authoritative standards. In addition, existing processes and controls should align with internal documentation. Specifically, throughout the period under audit, we identified the following weaknesses in the design of and criteria used for general information technology controls for in-scope systems:

1. System security plans (SSPs) were not documented in accordance with NIST 800-53, Revision 4 (in 7 of 10 systems tested).

Independent Auditors' Report
Exhibit I – FY 2016 Significant Deficiencies

2. Certain control activities were not documented in the SSPs to accurately reflect implemented controls and processes. Specifically, we noted inconsistencies in controls over Vulnerability Scanning (in 6 of 10 systems tested), Account Management (in 5 of 10 systems tested), Audit Events (in 5 of 10 systems tested), Configuration Changes Controls (in 3 of 10 systems tested), Access Restrictions for Change (in 3 of 10 systems tested), Separation of Duties (in 3 of 10 systems tested), Identification and Authentication for Organizational Users (in 3 of 10 systems tested), Flaw Remediation (in 3 of 10 systems tested), and Boundary Protection (in 1 of 10 systems tested).

Criteria

1. NIST 800-53, Revision 4: PL-2 *System Security Plan*.
2. GAO *Standards for Internal Control in the Federal Government* – Principles 10 and 11 – *Design Control Activities* and *Design Activities for the Information System*, respectively.

Cause and Effect

GSA issued guidance allowing system owners to update SSPs to the latest NIST 800-53, Revision 4 standard at a frequency that does not align with the requirements of NIST 800-53, Revision 4.

The untimely compliance with NIST 800-53, Revision 4, increases the security risk to the confidentiality, integrity and availability of data. In addition, without updating SSPs to accurately reflect the implemented and existing control processes, GSA may not know which controls are implemented in the current environment or how to properly implement these controls. These conditions increase the security risk to the confidentiality, integrity and availability of the data in all systems and applications.

Recommendations

We recommend GSA implement the following:

a. Access Controls

1. Enforce NIST, GSA-wide, and system-specific configuration management policies and procedures to ensure access to programs and data controls are operating effectively.
2. Provide periodic training on NIST, GSA-wide, and system-specific access to programs and data policies and procedures.
3. Develop CAP actions and apply them to all GSA applications to address the root causes of the control deficiencies identified.
4. Enhance the process to monitor the completeness of the CAP actions to ensure they address the condition and root cause of the control exceptions identified.
5. Authorize, provision, and maintain documented evidence of authorization for employees and contractors in accordance with entity and system-specific policies and procedures.
6. Document, review and maintain documented evidence of review for all accounts, roles and job functions, in a timely manner for employees and contractors.
7. Terminate access in a timely manner, in accordance with entity and system-specific policies and procedures, and maintain documented evidence of termination, for employees and contractors.
8. Require authentication to information systems to be in accordance with entity and system-specific policies and procedures.
9. Review and maintain documented evidence of timely review of audit logs.
10. Configure information system audit logs to capture audit events as required in entity and system-specific policies and procedures.

Independent Auditors' Report
Exhibit I – FY 2016 Significant Deficiencies

b. Configuration Management Controls

1. Enforce NIST, GSA-wide and system-specific configuration and patch management policies and procedures to ensure configuration and patch management controls are operating effectively.
2. Document and maintain all patch documentation, to include test plans and results.
3. Implement a mechanism to produce a complete and accurate listing of Linux and Windows operating system patches.
4. Develop CAP actions and apply them to all GSA applications to address the root causes of the control deficiencies identified.
5. Enhance the process to monitor the completeness of the CAP actions to ensure they address the condition and root cause of the control exceptions identified.
6. Formally and timely document the performance, review, and remediation actions taken for vulnerability scans results.

c. Design of General Information Technology Controls

1. Update SSPs to reflect the NIST SP 800-53, Revision 4 security controls.
2. Update SSPs to reflect existing and implemented control processes.
3. Develop CAP actions and apply them to all GSA applications to address the root causes of the control deficiencies identified.
4. Enhance the process to monitor the completeness of the CAP actions to ensure they address the condition and root cause of the control exceptions identified.

Management Response

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

IV. Entity-level Controls⁴

Conditions

Entity-level controls encompass the overall control environment throughout the entity. This includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance, and management concerning the entity's internal control and its importance in the entity. Entity-level controls are often categorized as environmental controls; risk assessment; information and communications; and monitoring, as defined by GAO's *Standards for Internal Control in the Federal Government* ("Green Book"). These controls must be effective, to create and sustain organizational structure that it is conducive to reliable financial reporting.

During FY 2016, GSA continued to implement corrective actions to address pervasive internal control weaknesses and strengthen internal controls and additional remediation actions are scheduled to continue in FY 2017. However, entity-level control deficiencies remain. These common themes are described below; however, they also contribute to several of the conditions presented in findings I through III above.

⁴ This finding applies to the Federal Buildings Fund, Acquisition Services Fund, and GSA as a whole.

Independent Auditors' Report
Exhibit I – FY 2016 Significant Deficiencies

1. Because internal control is a dynamic process that has to be adapted continually to the risks and changes an entity faces, monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks. Internal control monitoring assesses the quality of performance over time and promptly resolves the findings of audits and other reviews. Corrective actions are a necessary complement to control activities in order to achieve objectives. Specifically, we noted the following conditions related to GSA's monitoring procedures:
 - a. GSA performs a significant amount of manually-intensive reconciliations operating at varying frequencies throughout the year, many as often as monthly. For the first half of FY 2016, GSA did not timely address and resolve reconciling items identified in certain reconciliations. Therefore, a backlog of reconciling items was created exposing GSA to additional risks that balances and transactions may be misstated, forcing GSA to implement additional manually intensive procedures to reduce the backlog. In addition, certain reports and other information produced by GSA, used in reconciliations contained either incomplete or inaccurate information. As a result, reconciling items were not properly and timely reconciled and resolved.
 - b. GSA does not have formalized policies, procedures, or processes established and in place to properly assess third party service providers that host or operate GSA financial systems. As a result, GSA does not consistently monitor user controls, as documented in third party service providers' reports, to ensure they are operating effectively.
 - c. Monitoring procedures do not consistently test the design, implementation, and operating effectiveness of relevant controls in relevant and significant accounts, as identified by risk assessment.
 - d. Corrective actions, established and implemented by GSA, do not consistently address the conditions or root causes identified in previously issued findings. Although GSA tracks the status of individual corrective actions included in Corrective Action Plans (CAPs), GSA does not have procedures, as a part of its CAPs process, to determine whether identified deficiencies have been corrected or to demonstrate that the findings and recommendations do not warrant management action.
2. Regional and operational personnel do not always share responsibilities for, and are not adequately supervised on financial management matters that affect the financial statements, including adhering to appropriate accounting policies and procedures and performing key internal control functions in support of financial reporting.
3. There are certain financial system functionality limitations that still contribute to control deficiencies. These system functionality limitations are inhibiting progress on corrective actions for GSA and are preventing the agency from improving the efficiency and reliability of its financial reporting process. Some of the financial system limitations lead to extensive manually intensive and redundant procedures to process transactions, to verify accuracy of data, and to prepare the financial statements. Specifically, we noted:
 - a. Controls over the interface between GSA's contract management system and financial management system did not operate effectively.
 - b. Lack of system functionality to capture the estimated completion date for multi-phased construction projects.
 - c. Funds controls in the financial management system that can be overridden without proper controls over transactions recorded when such edit checks were switched off.
 - d. Improper configuration of the financial management system relating to the proper accounting for recoveries of prior years' obligations.
 - e. Aging feeder systems that do not capture proper information for the correct recognition of expenses and related revenue for certain Federal Acquisition Service lines of businesses.

Independent Auditors' Report
Exhibit I – FY 2016 Significant Deficiencies

- f. Numerous interfaces between feeder systems and the financial management system requiring manual journal entries to capture transactions properly that originally did not interface correctly.
- 4. Certain process controls are not properly designed to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. In addition, GSA has established a number of manual compensating controls that do not operate at a sufficient level of precision as the controls designed and implemented over the initiation of transactions.

Criteria

- 1. *GAO Standards for Internal Control in the Federal Government.*

Cause and Effect

Without the proper level of entity-level controls in place and operating effectively, GSA continues to run the risk that significant misstatements are neither prevented nor detected in the financial records and financial statements in a timely manner. In addition, there is an increased risk that GSA will continue to experience control deficiencies in financial reporting.

Recommendations

We continue to recommend that GSA management implement the following to improve the effectiveness of entity-level controls:

- 1. Continue to review and revise as necessary its internal control program to plan, establish, monitor, and report and communicate a comprehensive, adequate, and appropriate internal assessment of the operating effectiveness of GSA's internal controls.
- 2. Continue to strengthen the monitoring controls. GSA and each one of its components should design monitoring controls around its annual risk assessment to ensure transactions with higher risk of error are adequately monitored – including completeness and accuracy controls over the data used in monitoring controls. Components with effective detective controls should look for opportunities to implement more reliable controls earlier in processes to prevent errors at the transaction source.
- 3. Prioritize financial system and feeder system enhancements to resolve functionality limitations and reduce manually intensive and redundant procedures.
- 4. Provide training to financial and program personnel on internal controls.

Management Response

Management concurs. GSA will continue to implement corrective actions, evaluate additional recommendations, and implement actions that address these deficiencies.

CONSOLIDATED FINANCIAL STATEMENTS

U.S. General Services Administration

Consolidated Balance Sheets

As of September 30, 2016 and 2015
(Dollars in Millions)

	2016	2015
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Notes 1-D, 2)	\$ 10,601	\$ 9,748
Accounts Receivable - Federal, Net (Note 4)	2,195	1,801
Capital Lease Payments Receivable (Note 8)	103	108
Prepaid Expenses and Advances - Federal	4	3
Total Intragovernmental Assets	12,903	11,660
Accounts Receivable - Non-Federal, Net (Note 4)	150	155
Inventories (Note 1-E)	14	21
Other Assets (Note 5)	226	179
Property and Equipment: (Notes 1-F, 6)		
Buildings	45,150	44,085
Leasehold Improvements	331	324
Motor Vehicles	5,579	5,352
Equipment and Other Property	717	779
Less: Accumulated Depreciation and Amortization	(27,488)	(25,983)
Subtotal	24,289	24,557
Land	1,678	1,692
Construction in Process and Software in Development	1,078	1,141
Total Property and Equipment, Net	27,045	27,390
TOTAL ASSETS	\$ 40,338	\$ 39,405
LIABILITIES AND NET POSITION		
Intragovernmental Liabilities:		
Accounts Payable and Accrued Expenses - Federal	\$ 45	\$ 44
Judgment Fund Liability (Note 11)	482	458
Deferred Revenues and Advances - Federal (Note 11)	344	324
Amounts Owed to the General Fund (Note 11)	36	38
Other Intragovernmental Liabilities (Notes 9, 11)	83	90
Total Intragovernmental Liabilities	990	954
Accounts Payable and Accrued Expenses - Non-Federal	2,414	1,989
Environmental and Disposal Liabilities (Notes 6, 11)	2,092	2,240
Capital Lease and Installment Purchase Liability (Note 11)	585	551
Unamortized Rent Abatement Liability (Note 11)	445	416
Workers' Compensation Actuarial Liability (Notes 7, 11)	115	122
Annual Leave Liability (Notes 1-G, 11)	106	105
Deposit Fund Liability (Note 11)	32	44
Other Liabilities (Notes 9, 11)	86	114
Total Liabilities	6,865	6,535
Net Position: (Note 14)		
Cumulative Results of Operations	33,226	32,615
Unexpended Appropriations	247	255
Total Net Position	33,473	32,870
TOTAL LIABILITIES AND NET POSITION	\$ 40,338	\$ 39,405

U.S. General Services Administration

Consolidated Statements of Net Cost

For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Millions)

		2016	2015
Manage Building Operations	Earned Revenues	\$11,216	\$11,318
	Less: Operating Expenses	10,593	10,673
	Net Revenues from (Cost of) Operations	623	645
Provide Acquisition Services	Earned Revenues	9,187	8,119
	Less: Operating Expenses	9,177	8,170
	Net Revenues from (Cost of) Continuing Operations	10	(51)
	Discontinued Operations:		
	Earned Revenues - GS&S Stock Programs	1	6
	Less: Operating Expenses - GS&S Stock Programs	8	94
	Subtotal	(7)	(88)
	Gain from Lease Liability Reduction (Note 18)	20	-
	Net Revenues from (Cost of) Discontinued Operations	13	(88)
	Net Revenues from (Cost of) Operations	23	(139)
Working Capital and General Programs	Earned Revenues	53	45
	Less: Operating Expenses	409	308
	Net Revenues from (Cost of) Operations	(356)	(263)
GSA Consolidated Net Results	Earned Revenues	20,457	19,488
	Less: Operating Expenses	20,167	19,245
	Net Revenues from (Cost of) Operations	\$290	\$243

U.S. General Services Administration

Consolidated Statements of Changes in Net Position

For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	2016	2015
BEGINNING BALANCE OF NET POSITION:		
Cumulative Results of Operations	\$ 32,615	\$ 31,857
Unexpended Appropriations	255	399
Net Position Beginning Balance	32,870	32,256
RESULTS OF OPERATIONS:		
Net Revenues From Operations	290	243
Appropriations Used (Note 1-C)	249	384
Non-Exchange Revenue (Notes 1-C, 1-D)	99	92
Imputed Financing Provided By Others	84	82
Transfer of Earnings Paid and Payable to U.S. Treasury	(76)	(73)
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	(19)	42
Other	(16)	(12)
Net Results of Operations	611	758
CHANGES IN UNEXPENDED APPROPRIATIONS:		
Appropriations Received	254	241
Appropriations Used	(249)	(384)
Appropriations Adjustments and Transfers From Other Agencies or Funds	(13)	(1)
Net Change in Unexpended Appropriations	(8)	(144)
ENDING BALANCE OF NET POSITION:		
Cumulative Results of Operations	33,226	32,615
Unexpended Appropriations	247	255
Net Position Ending Balance	\$ 33,473	\$ 32,870

U.S. General Services Administration

Combined Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	2016	2015
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority: Unobligated Balance Brought Forward, October 1	\$ 6,294	\$ 6,786
Adjustment to Unobligated Balance Brought Forward	(33)	-
Recoveries of Prior Year Unpaid Obligations	441	439
Other Changes in Unobligated Balance	(10)	21
Unobligated Balance from Prior Year Budget Authority, Net	6,692	7,246
Appropriations, Net	280	263
Spending Authority from Offsetting Collections:		
Collections	22,490	22,036
Change in Uncollected Customer Payments	1,230	(132)
Previously Unavailable	3,567	2,941
Resources Temporarily Not Available	(3,187)	(3,567)
Total Spending Authority from Offsetting Collections	24,100	21,278
Total Budgetary Resources	31,072	28,787
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	357	362
Reimbursable	22,984	22,131
Total Obligations Incurred	23,341	22,493
Unobligated Balance:		
Apportioned	6,513	6,113
Unapportioned	1,218	181
Total Unobligated Balance, End of Period	7,731	6,294
Total Status of Budgetary Resources	31,072	28,787
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1, Gross	9,183	8,420
Obligations Incurred	23,341	22,493
Outlays, Gross	(21,878)	(21,291)
Recoveries of Prior Year Unpaid Obligations	(441)	(439)
Unpaid Obligations, End of Period, Gross	10,205	9,183
Uncollected Payments:		
Uncollected Customer Payments, Brought Forward, October 1	(9,480)	(9,612)
Adjustment to Uncollected Customer Payments, Brought Forward	33	-
Change in Uncollected Customer Payments from Federal Sources	(1,230)	132
Uncollected Customer Payments from Federal Sources, End of Period	(10,677)	(9,480)
Obligated Balance, Start of Year, October 1:	(264)	(1,192)
Obligated Balance, End of Period:	(472)	(297)
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	24,380	21,541
Actual Offsetting Collections	(22,511)	(22,063)
Change in Uncollected Customer Payments from Federal Sources	(1,230)	132
Additional Offsets Against Budget Authority	20	27
Budget Authority, Net	659	(363)
Gross Outlays	21,878	21,291
Less: Offsetting Collections	(22,511)	(22,063)
Net Outlays from Operating Activity	(633)	(772)
Distributed Offsetting Receipts	(85)	(107)
Total Net Outlays	\$ (718)	\$ (879)

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2016 and 2015.

The General Services Administration (GSA) was created by the U.S. Federal Property and Administrative Services Act of 1949, as amended. Congress enacted this legislation to provide for the federal government an economic and efficient system for the procurement and operation of buildings, procurement and distribution of general supplies, acquisition and management of a motor vehicle fleet, management of automated data processing resources, and management of telecommunications programs.

The Administrator of General Services, appointed by the President of the United States with the advice and consent of the U.S. Senate, oversees the operations of GSA. GSA carries out its responsibilities through the operation of several appropriated and revolving funds.

1. Significant Accounting Policies

A. Reporting Entity

GSA presents comparative Consolidated and Consolidating Balance Sheets, Consolidated and Consolidating Statements of Net Cost, Consolidated and Consolidating Statements of Changes in Net Position, and Combined and Combining Statements of Budgetary Resources. The consolidating and combining formats display GSAs two largest components: the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF). All other entities have been combined under Other Funds.

The FBF is the primary fund used to record activities of the Public Buildings Service (PBS). The ASF is the primary fund used to record activities of the Federal Acquisition Service (FAS). In May of 2016, a new organization, the Technology Transformation Service (TTS) was created. TTS is primarily funded

through the FCSF (Federal Citizen Services Fund), the ASF and the Working Capital Fund (WCF).

GSA's accompanying financial statements include the accounts of all funds which have been established and maintained to account for resources under the control of GSA management. The entities included in the Other Funds category are described below, together with a discussion of the different fund types.

Revolving Funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by Congress. The Revolving Funds in the Other Funds category consist of the following:

- Federal Citizen Services Fund (FCSF)
- Working Capital Fund (WCF)

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. GSA manages 20 General Funds. Four of these General Funds are funded by current year appropriations, six by no-year appropriations, two by multi-year appropriations, three cannot incur new obligations, and five budget clearing accounts that temporarily hold collections until a more appropriate fund can be determined. The General Funds included in the Other Funds category are as follows:

- Allowances and Office Staff for Former Presidents
- Budget Clearing Account – Broker Rebates
- Budget Clearing Account – Proceeds of Sales, Personal Property

- Budget Clearing Account – Real Property
- Budget Clearing Account – Suspense
- Budget Clearing Account - Undistributed Intragovernmental Payments
- Data Driven Innovation – Executive Office of the President (EOP) Child
- Energy-Efficient Federal Motor Vehicle Fleet Procurement – Recovery Act
- Excess and Surplus Real and Related Personal Property Holding Account
- Expenses, Electronic Government Fund
- Expenses, Government-Wide Policy
- Expenses, Presidential Transition
- Pre-Election Presidential Transition
- Government-Wide Policy – Multi-Year
- Information Technology Oversight and Reform – EOP Child
- Expenses, Office of Inspector General (OIG)
- OIG – No-Year
- OIG – Recovery Act
- Operating Expenses, GSA
- Real Property Relocation

Special and Trust Funds are accounts established for receipts dedicated by law for a specific purpose, but are not generated by a cycle of operations for which there is continuing authority to reuse such receipts. In accordance with Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27*, Identifying and Reporting Earmarked Funds, these Special and Trust Funds are classified as funds from dedicated collections. Although immaterial, balances of funds from dedicated collections are displayed in Note 2-B. GSA uses Special Fund receipts to pay certain costs associated with the disposal of surplus real property, for funding of the Transportation Audits program, and to fund the Acquisition Workforce Training program. GSA has one Trust Fund with authority to accept

unconditional gifts of property in aid of any project or function within its jurisdiction. GSA's Special and Trust Funds consist of the following:

- Expenses, Disposal of Real and Related Personal Property
- Expenses, Transportation Audits
- Expenses, Acquisition Workforce Training Fund
- Other Receipts, Surplus Real and Related Personal Property
- Receipts of Rent, Leases and Lease Payments for Government-Owned Real Property
- Receipts, Transportation Audits
- Receipts, Acquisition Workforce Training Fund
- Transfers of Surplus Real and Related Personal Property
- Unconditional Gifts of Real, Personal or Other Property

Miscellaneous Receipt and Deposit Funds

accounts are considered non-entity funds since GSA management does not exercise control over how the monies in these accounts can be used. Miscellaneous Receipt Fund accounts hold receipts and accounts receivable resulting from miscellaneous activities of GSA where, by law, such monies may not be deposited into funds under GSA management control. The U.S. Department of the Treasury (U.S. Treasury) automatically transfers all cash balances in these receipt accounts to the General Fund of the U.S. Treasury at the end of each fiscal year. Deposit Fund accounts hold monies outside the budget. Accordingly, their transactions do not affect budget surplus or deficit. These accounts include (1) deposits received for which GSA is acting as an agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods and services received and (4) monies whose distribution awaits a legal determination or investigation. The receipt and deposit funds in the Other Funds category consist of the following:

- Advances Without Orders from Non-Federal Sources

- GSA Childcare Deposits
- Fines, Penalties, and Forfeitures, Not Otherwise Classified
- Forfeitures of Unclaimed Money and Property
- General Fund Proprietary Interest, Not Otherwise Classified
- General Fund Proprietary Receipts, Not Otherwise Classified, All Other
- Other Earnings from Business Operations and Intra-Governmental Revolving Funds
- Proceeds from Sale of Surplus Property
- Small Escrow Amounts
- Special and Trust Fund Proprietary Receipts Returned to the General Fund of the U.S. Treasury
- Withheld State and Local Taxes

GSA is able to delegate certain program and financial operations of a portion of its funds to other federal agencies to execute on GSA's behalf. Unique sub-accounts, also known as allocation accounts (child), of GSA funds (parent) are created in the U.S. Treasury to provide for the reporting of obligations and outlays incurred by such other agencies. Generally, all child allocation account financial activity is reportable in combination with the results of the parent fund, from which the underlying legislative authority, appropriations and budget apportionments are derived. For FYs 2016 and 2015, GSA's FBF has an allocation account in this regard with the Department of Commerce.

In addition, other agencies may delegate certain programs and financial operations to GSA to execute on their behalf. The GSA Data Driven Innovation Fund was established in FY 2015 as a child account to the EOP Data Driven Innovation Fund. The amount transferred to this child account supports an initiative to increase tax filings by potentially eligible Earned Income Tax Credit claimants. In accordance with Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements, agencies that receive allocation transfers from the EOP are to include such balances in their financial statements.

Other Matters On October 1, 2015, GSA transferred ownership of its primary financial management system and financial management system access controls to the U.S. Department of Agriculture (USDA), its Federal Shared Service Provider. This transfer concludes significant aspects of GSA's transition, having moved personnel and systems to USDA.

B. Basis of Accounting

The principal financial statements are prepared from the books and records of GSA, in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by FASAB, and OMB Circular No. A-136, in all material respects. FASAB SFFAS No. 34, The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Federal Accounting Standards Board, established the hierarchy of GAAP for federal financial statements. The Consolidated Statements of Net Cost present the operating results of the FBF, ASF and Other Fund functions, as well as GSA Consolidated operating results as a whole. The Consolidated Balance Sheets present the financial position of GSA using a format segregating intragovernmental balances. The Consolidated Statements of Changes in Net Position display the changes in Cumulative Results of Operations and Unexpended Appropriations. The Combined Statements of Budgetary Resources (CSBR) present the sources, status and uses of GSA budgetary resources.

GSA reconciles all intragovernmental fiduciary transaction activity and works with agency partners to reduce significant or material differences reported by other agencies in conformance with U.S. Treasury intragovernmental reporting guidelines and requirements of OMB Circular No. A-136.

Certain prior year balances have been reclassified to conform to the current year presentation.

On the Consolidated Statements of Net Cost, Consolidated Balance Sheets and Consolidated Statements of Changes in Net Position, all significant intra-agency balances and transactions have been eliminated in consolidation. On the Consolidated

Statements of Net Cost, adjustments to eliminate GSAs intra-fund revenues and expenses are applied to reduce such balances of the activity providing services (seller) to the other GSA components. No such eliminations have been made on the CSBR.

On the Consolidating Statements of Net Cost, intra-GSA eliminations of revenue and expenses are displayed separately, and results of individual funds reflect the full amounts of such balances that flowed through those funds. Certain amounts of expenses eliminated on the Consolidating Statements of Net Cost are imputed costs for which the matching resource is not revenue on this statement, but imputed resources provided by others, displayed on the Consolidating Statements of Changes in Net Position. Accordingly, on the Consolidating Statements of Net Cost the revenue and expense eliminations do not match. The Consolidating Statements of Changes in Net Position display the offsetting balances between these categories.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Operating expenses and related accounts payable accruals and estimates are recorded in the period goods or services are received.

C. Revenue Recognition and Appropriations Used

Substantially all revenues reported by GSA funds on the Consolidated Statements of Net Cost are generated from intragovernmental sales of goods and services, with only three percent of revenues earned from non-federal customers for the years ended September 30, 2016, and 2015. Expenses are primarily incurred with non-federal entities supplying the underlying goods and services being provided to GSA federal customers, with only four percent of operating expenses resulting from

activity with other federal agencies for the years ended September 30, 2016, and three percent in FY 2015, respectively. Each fund has established rate-setting processes governed by the laws authorizing its activities. In most cases, the rates charged are intended to cover the full cost that GSA funds will pay to provide such goods and services and to provide capital maintenance. In accordance with the governing laws, rates are generally not designed to recover imputed costs not borne by GSA, but covered by other funds or entities of the U.S. government, such as for post-employment and other inter-entity costs. As the amount of services provided to non-federal customers is generally very insignificant, maintaining separate rate structures for these customers to recover imputed costs is not warranted.

Generally, Revolving Fund and reimbursable General Fund revenue is recognized when goods have been delivered or services rendered.

- In the FBF, rent revenues are earned based on occupancy agreements with customers, as space and services are provided. Generally, agencies housed in government-owned buildings are billed based upon commercial rates for comparable space. Agencies housed in buildings leased by GSA are generally billed at rates to recover the cost of that space. In some instances, special rates are arranged in accordance with congressional guidance or other authorized purposes. Most agencies using funding from Trust Funds have rent rates set to recover full cost. For revenue under non-recurring reimbursable building repairs and alterations (R&A) projects, GSA charges customers actual cost, and makes no profit. As a result, revenues are generally earned to match costs incurred.
- In the ASF, General Supplies and Services revenues are recognized when goods are provided to customers. In the Travel, Motor Vehicle, and Card Services portfolio, vehicle acquisition revenues are recognized when goods are provided. Vehicle leasing revenues

are recognized based on rental arrangements over the period vehicles are dispatched. Assisted Acquisition Services (AAS) revenues are recognized when goods or services are provided, and fee revenues in the GSA Schedules programs are earned based on estimated and actual usage of GSA contracting vehicles by other agencies. The Schedules programs generated \$269 million in fees, constituting three percent of ASF revenues in FY 2016, and \$270 million in fees, three percent of ASF revenues, in FY 2015. Integrated Technology Services revenues are earned when goods or services are provided or as reimbursable project costs are incurred. Telecommunications service revenues are generally recognized based on customer usage or on fixed line rates.

- In the WCF, revenues are generally recognized when general management and administrative services are provided to the service components of GSA and to external customers. Such WCF revenues are earned in accordance with agreements that recover the direct cost and an allocation of indirect costs from the components of GSA receiving those services.

Non-Exchange Revenues are recognized on an accrual basis on the Consolidated Statements of Changes in Net Position for sales of surplus real property, reimbursements due from the audit of payments to transportation carriers, and other miscellaneous items resulting from GSA operations where ultimate collections must be deposited in miscellaneous receipt accounts of the U.S. Treasury.

Appropriations for General Fund and Special Fund activities are recorded as a financing source on the Consolidated Statements of Changes in Net Position when expended. Unexpended appropriations are reported as an element of Net Position on the Consolidated Balance Sheets.

D. Fund Balance with Treasury (See Note 2)

This total represents all unexpended balances for GSA accounts with the U.S. Treasury.

GSA acts as a disposal agent for surplus federal real and personal property. In some cases, public law entitles the owning agency to the sales proceeds, net of disposal expenses incurred by GSA. Proceeds from the disposal of equipment are generally retained by GSA to replace equipment. Under GSA legislative authorities, the gross proceeds from some sales are deposited in GSA Special Fund receipt accounts and recorded as Non-Exchange Revenues in the Consolidated Statements of Changes in Net Position. A portion of these proceeds is subsequently transferred to a Special Fund to finance expenses incurred in disposing of surplus property. The remainder is periodically accumulated and transferred, by law, to the Land and Water Conservation Fund administered by the U.S. Department of the Interior (DOI).

E. Inventories (See Note 18)

Inventories held for sale to other federal agencies consist primarily of ASF inventories valued at historical cost, generally determined on a moving average basis. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical counting plan. In the ASF, an inconsequential amount of the balances in inventories held for sale are excess inventories. Excess inventories are defined as those exceeding the economic retention limit (i.e., the number of units of stock which may be held in inventory without incurring excessive carrying costs). Excess inventories are generally transferred to another federal agency, sold, or donated to state or local governments.

F. Property and Equipment (See Note 6)

Generally, property and equipment purchases and additions of \$10,000 or more, and having a useful life of two or more years, are capitalized and valued

at cost. Property and equipment transferred to GSA from other federal agencies on the date GSA was established is stated at the transfer value, which approximates historical cost. Subsequent thereto, equipment transferred to GSA is stated at net book value, and surplus real and related personal property transferred to GSA is stated at the lower of net book value or appraised value.

Expenditures for major additions, replacements and alterations to real property of \$50,000 or more are capitalized. Normal repair and maintenance costs are expensed as incurred. The cost of R&A and leasehold improvements performed by GSA, but financed by other agencies, is not capitalized in GSA financial statements as such amounts are transferred to the other agencies upon completion of the project. The majority of all land, buildings and leasehold improvements are leased to other federal agencies under short-term cancellable agreements.

Depreciation and amortization of property and equipment are calculated on a straight-line basis over their initial or remaining useful lives. Leasehold Improvements are amortized over the lesser of their useful lives, generally five years, or the unexpired lease term. Buildings capitalized by the FBF at its inception in 1974 were assigned remaining useful lives of 30 years. It is GSA policy to reclassify capitalized costs of construction in process into the Buildings accounts upon project completion. Buildings acquired under capital lease agreements are also depreciated over 30 years. Major and minor building renovation projects carry estimated useful lives of 20 years and 10 years, respectively.

Most of the assets comprising Other Equipment are used internally by GSA and are depreciated over periods generally ranging from three to 10 years.

GSA maintains a fleet of Motor Vehicles for rental to other Federal agencies to meet their operational needs, with monthly billings rendered to recover program costs. The various vehicle types are depreciated over a general range of four to 12 years.

In accordance with FASAB SFFAS No. 10, Accounting for Internal Use Software, capitalization of software development costs incurred for systems having a useful life of two years or more is required. With implementation of this standard, GSA adopted minimum dollar thresholds per system that would be required before capitalization would be warranted. For the FBF, this minimum threshold is \$1 million. For all other funds, it is \$250,000. Once completed, software applications are depreciated over an estimated useful life determined on a case-by-case basis, ranging from three to 10 years. Capitalized software is reported as an element of Other Equipment on the Consolidated Balance Sheets.

In FY 2015 GSA implemented FASAB SFFAS No. 44, Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use. The standard requires PBS to report partial impairments as a loss on the Statement of Net Costs. There were no partial impairments reported for FY 2016 or FY 2015.

G. Annual, Sick and Other Types of Leave

Annual leave liability is accrued as it is earned and the accrual is reduced as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Sick leave and other types of nonvested leave are expensed as taken.

2. Fund Balance with Treasury (FBwT)

A. Reconciliation to U.S. Treasury

There were no material differences between amounts reported by GSA and those reported to the U.S. Treasury as of September 30, 2016, and 2015.

B. Balances by Fund Type

The most significant amounts for GSA in FBwT are in the FBF and ASF revolving funds. Within the Other Funds category, Special and Trust Receipt and Expenditure Funds are classified as funds from dedicated collections in accordance with FASAB SFFAS No. 43. The fund balances in the Other Funds category contains amounts in the following fund types (dollars in millions):

	2016	2015
Revolving Funds	\$414	\$398
Appropriated and General Funds	144	144
Clearing Funds	42	51
Special Receipt Funds	103	106
Special and Trust Expenditure Funds	47	49
Deposit Funds	35	52
Total Other Funds	\$785	\$800

C. Relationship to the Budget

In accordance with FASAB SFFAS No. 1, Accounting for Selected Assets and Liabilities, the following information is provided to further identify amounts in FBwT as of September 30, 2016, and 2015, against which obligations have been made, and for unobligated balances, to identify amounts available for future expenditures and those only available to liquidate prior obligations. In the FBF, amounts of FBwT shown below as Unobligated Balance – Unavailable include a combination of the amounts reported on the CSBR as Resources Temporarily Unavailable and Unobligated Balance – Not Available. Also, in two instances, the portion of FBwT presented below as unobligated balances will

not equal related amounts reported on the CSBR. In the FBF, the CSBR unobligated balances include resources associated with borrowing authority for which actual funds have not yet been realized. In the Other Funds group, the schedule below includes amounts displayed as unavailable unobligated balances for the FBwT held in Special Receipt, Clearing, and Deposit Funds, shown above in Note 2-B, which are not reportable for purposes of the CSBR. The following schedule presents elements of the FBwT (dollars in millions):

	Obligated Balance, Net	Unobligated Balance		Total
		Available	Unavailable	
2016				
FBF	\$(170)	\$5,720	\$3,344	\$8,894
ASF	(673)	640	955	922
Other Funds	371	82	332	785
Total	\$(472)	\$6,442	\$4,631	\$10,601

2015				
FBF	\$57	\$4,178	\$3,581	\$7,816
ASF	(717)	1,849	-	1,132
Other Funds	363	59	378	800
Total	\$(297)	\$6,086	\$3,959	\$9,748

D. Availability of Funds

Included in GSA's FBwT are dedicated collections from Special Receipt Funds that may be transferred to either the U.S. Treasury, or the Land and Water Conservation Fund (see Note 1-D). These amounts, related to the Transportation Audits program, Acquisition Workforce Training program and surplus real property disposals, are subject to transfer upon GSA's determination of the internal working capital needs of these programs. The FBwT in these funds totaled \$103 million and \$106 million at September 30, 2016, and 2015, respectively, of which \$30 million and \$35 million, respectively, were recorded as liabilities in the Consolidated Balance Sheets.

In FY 2016 and FY 2015, \$27 million and \$1 million, respectively, of unused funds from expired appropriations were returned to the U.S. Treasury as of September 30. Such balances are excluded from the amount reported as FBwT in accordance with U.S. Treasury guidelines.

A portion of FBwT also includes amounts where authority to incur new obligations has expired, but the funds are available to liquidate residual obligations that originated when the funds were available. Such expired balances totaled \$45 million and \$71 million at September 30, 2016, and 2015, respectively.

The FBF has balances that are temporarily not available in accordance with annual appropriation acts that limit the amount of reimbursable resources that are available for spending each year. Such amounts totaled \$3,187 million and \$3,567 million at September 30, 2016, and 2015, respectively, and will not be available for expenditure except as authorized in future appropriation acts. Under ASF legislative authorities, GSA is permitted to retain earnings to ensure the fund has sufficient resources to support operations in association with a cost and capital planning process as approved by the Administrator of GSA. The ASF did not return any funds to Treasury in FY 2016. Cumulative Results of Operations in the ASF have been used to cover discontinued operations and investments in government wide software applications to include the System for Award Management and the Common Acquisition Platform.

3. Non-Entity Assets

As of September 30, 2016, and 2015, certain amounts reported on the Consolidated Balance Sheets are elements of Budget Clearing, Deposit, and Miscellaneous Receipt Funds, which are not available to management for use in ongoing operations and are classified as Non-entity assets (see Note 1-A). The only substantial balances of non-entity assets were Fund Balance with Treasury, which totaled \$76 million and \$103 million, as of September 30, 2016 and 2015 respectively.

4. Accounts and Notes Receivable, Net

Substantially all accounts receivable are from other federal agencies, with only 6 percent and 8 percent due from non-federal customers as of September 30, 2016, and 2015, respectively. Unbilled accounts receivable result from the delivery of goods, or performance of services for which bills have not yet been rendered. Allowances for doubtful accounts are recorded using aging methodologies based on analysis of historical collections and write-offs.

In addition to accounts receivable balances displayed below, GSA has an inconsequential balance of notes receivable, net of allowances for doubtful accounts. The most significant of these notes receivable balances is an \$8 million note in the Federal Buildings Fund that has been deemed uncollectible. In accordance with FASAB SFFAS No. 1, GSA does not recognize interest receivable or allowance related to notes deemed uncollectible. As of September 30, 2016, and 2015, accumulated unrecognized interest on this note totaled \$164 million and \$145 million, respectively.

A summary of Accounts Receivable as of September 30, 2016, and 2015, is as follows (dollars in millions):

	FBF		ASF		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Accounts Receivable - Billed	\$175	\$197	\$103	\$79	\$19	\$24	-	-	\$297	\$300
Accounts Receivable - Unbilled	346	363	1,797	1,352	3	6	60	23	2,086	1,698
Allowance for Doubtful Accounts	(16)	(27)	(21)	(14)	(1)	(1)	-	-	(38)	(42)
Total Accounts Receivable, Net	\$505	\$533	\$1,879	\$1,417	\$21	\$29	\$60	\$23	\$2,345	\$1,956

5. Other Assets

As of September 30, 2016, and 2015, Other Assets were comprised of the following balances (dollars in millions):

	FBF		ASF		OTHER FUNDS		GSA CONSOLIDATED TOTALS	
	2016	2015	2016	2015	2016	2015	2016	2015
Surplus Property Held for Sale	\$46	\$35	\$24	\$38	\$-	\$1	\$70	\$74
Unamortized Deferred Charges and Prepayments	116	90	-	-	-	-	116	90
Intangible Assets	-	-	26	-	-	-	26	-
Miscellaneous	14	15	-	-	-	-	14	15
Total Other Assets	\$176	\$140	\$50	\$38	\$-	\$1	\$226	\$179

6. Property and Equipment, Net

A. Summary of Balances

Balances in GSA Property and Equipment accounts subject to depreciation as of September 30, 2016, and 2015, are summarized below (dollars in millions):

2016				2015		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Buildings						
FBF	\$45,150	\$24,709	\$20,441	\$44,085	\$23,210	\$20,875
Leasehold Improvements						
FBF	299	248	51	297	239	58
ASF	30	24	6	27	22	5
Other Funds	2	-	2	-	-	-
Motor Vehicles						
ASF	5,579	1,896	3,683	5,352	1,879	3,473
Other Equipment						
FBF	185	152	33	187	148	39
ASF	380	330	50	364	312	52
Other Funds	152	129	23	228	173	55
Total Property and Equipment	\$51,777	\$27,488	\$24,289	\$50,540	\$25,983	\$24,557

B. Cleanup Costs

GSA's FBF recognized \$1,993 million and \$2,171 million for Environmental and Disposal Liabilities as of September 30, 2016 and 2015, respectively, for properties currently in GSA's inventory. Included in this balance are the current estimates for cleanup associated with existing environmental hazards and future costs of asbestos remediation.

- In the FBF, certain properties contain environmental hazards that will ultimately need to be removed and/or require containment mechanisms to prevent health risks to the public. Cleanup of such hazards is governed by various federal and state laws. The laws most applicable to GSA are the Comprehensive Environmental Response Compensation and Liability Act of 1980, the Clean Air Act, and the

Resource Conservation and Recovery Act.

- In accordance with FASAB SFFAS No. 5 and 6, *Accounting for Liabilities of the Federal Government and Accounting for Property, Plant, and Equipment*, respectively, and interpretive guidance in Federal Financial Accounting and Auditing Technical Release No. 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government, issued by the FASAB Accounting and Auditing Policy Committee, if an agency is required by law to clean up such hazard, the estimated amount of cleanup cost must be reported in the financial statements.
- GSA's methodology for estimating non-asbestos related liabilities captures the cost of remediating certain hazards, such as, but not

limited to, lead based paint and polychlorinated biphenyls. GSA's methodology uses actual cost data from major renovation projects and cost estimates from independent third-party environmental surveys, to develop average cost factors for non-asbestos remediation. These average cost factors were applied to GSA's total square feet of applicable inventory in order to determine the total estimated non-asbestos liability.

- In accordance with FASAB Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs, the focus is to recognize an unfunded liability and related expenses for asbestos related cleanup costs where it is both probable and reasonably estimable for federal entities that own tangible property, plant and equipment containing asbestos. GSA has a methodology for estimating asbestos-related cleanup costs.
- GSA's methodology for developing its estimated future asbestos liability involved selection of asbestos abatement survey reports performed by third party contractors, independent from GSA, to develop an average cost factor. The average cost factor from these asbestos survey reports is applied to GSA's total square feet of applicable inventory in order to determine the total estimated asbestos liability. In accordance with Technical Bulletin 2006-1, GSA recognizes cleanup costs on the basis of passage of time, over the estimated life of the underlying assets. The building useful life of 30 years is used for purposes of recognizing and amortizing the long term estimated asbestos cleanup costs. During FY 2016, changes to GSA's total estimated liability consisted of cost re-estimates, inflation and amortization of remaining future year costs.
- GSA's total estimated environmental and disposal liabilities for future asbestos and non-asbestos related cleanup costs at September 30, 2016 and 2015 were (dollars in millions):

	2016	2015
Asbestos Liability	\$1,561	\$1,727
Non-Asbestos Liability	432	444
Subtotal - Liabilities	1,993	2,171
Unamortized Costs - Asbestos	18	23
Unamortized Costs - Non-Asbestos	43	46
Total Estimated Future Environmental Cleanup Costs	\$2,054	\$2,240

- Additionally, in accordance with FASAB SFFAS No. 5, a contingent liability should be disclosed if any of the conditions for liability recognition are not met and there is a reasonable possibility that a loss or an additional loss may have been incurred. As of September 30, 2016 and 2015, GSA's FBF had \$170 million and \$169 million, respectively, of environmental and disposal contingencies where it is reasonably possible, but not probable, GSA funds will incur cleanup costs.

C. Heritage Assets

The average age of GSA buildings is 49 years old, and therefore, many buildings have historical, cultural and/or architectural significance. While GSA uses these buildings to meet the office space and other needs of the federal government, maintaining and preserving these historical elements is a significant priority. In accordance with FASAB SFFAS No. 29, Heritage Assets and Stewardship Land, these buildings meet the definition of Multi-use Heritage Assets, and are reportable within Property and Equipment on the Consolidating Balance Sheets. Deferred maintenance and repairs related to GSA's heritage assets, as applicable, are disclosed in the required supplementary information.

GSA defines its Historic Buildings as those buildings that are either listed on the National Register of Historic Places, have formally been determined eligible, or appear to meet eligibility criteria to be listed. GSA has 396 buildings on the National

Register, up from 374 at the end of FY 2015, of which 76 are designated as National Historical Landmarks. An additional 91 buildings are potentially eligible for listing on the National Register, but have not gone through the formal determination process. Under the National Historic Preservation Act, GSA is required to give these buildings special consideration, including first preference for federal use and rehabilitation in accordance with standards established by the DOI.

GSA also has one collection of artworks with historical significance.

7. Workers' Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides wage replacement and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from the federal agencies employing the claimants. DOL provides the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' wage replacement, and medical and miscellaneous costs for approved compensation cases.

The present value of these estimates at the end of FY 2016 and FY 2015 were calculated by DOL using the following discount rates:

FY 2016		FY 2015	
Year 1	Year 2 and thereafter	Year 1	Year 2 and thereafter
Wage Benefits	2.781	3.134	3.134
Medical Benefits	2.261	2.496	2.496

At September 30, 2016 and 2015, GSA's actuarial liability totaled \$115 million and \$122 million, respectively.

8. Leasing Arrangements

As of September 30, 2016, GSA was committed to various non-cancellable operating leases covering administrative office space and storage facilities maintained by the FBF. Many of these leases contain escalation clauses tied to inflation and tax increases, and renewal options. The following are schedules of future minimum rental payments required under leases that have initial or remaining non-cancellable terms in excess of one year, and under capital leases together with the present value of the future minimum lease payments. For the present value of future minimum lease payments under capital leases, \$13 million is already covered by budget authority while \$114 million will have funding made available in the year the payment is due (dollars in millions):

OPERATING LEASES

FISCAL YEAR	FBF
2017	\$4,021
2018	3,409
2019	2,916
2020	2,494
2021	2,055
2022 and thereafter	8,226
Total future minimum lease payments	<u>\$23,121</u>

CAPITAL LEASES

FISCAL YEAR	FBF
2017	\$34
2018	33
2019	29
2020	28
2021	22
2022 and thereafter	4
Total future minimum lease payments	<u>150</u>
Less: Amounts representing-	
Interest	22
Executory Costs	1
Total obligations under capital leases	<u>\$127</u>

Substantially all leased and owned space maintained by the FBF is sublet to other federal agencies at rent charges to recover GSA's cost of that space, or commercial equivalent charges. The majority of agreements covering these arrangements allow customer agencies to terminate the agreement with four months' notice, anytime after the first 16 months of the agreement term. In those cases, GSA believes the agreements will continue without interruption. In some instances, agreements with customers may include non-cancellation clauses or restricted clauses that limit the ability to cancel prior to the agreement's expiration date. Customer agencies may also enter into a supplemental occupancy agreement with the ASF's Total Workplace program. This program assists customers with right-sizing their operations to improve space utilization, reduce real estate footprint, and increase workplace efficiency while minimizing initial capital investments for items such as furniture and information technology equipment. Base terms generally have a duration of 30 months for furniture and 18 months for IT equipment with a renewal option. Agreements may be canceled with four months' notice; however, the customer is still liable for the remaining term payments on the leased equipment. GSA believes that these agreements will also continue without interruption. The following is a schedule displaying the future minimum rental revenues due to GSA for all non-cancellable and restricted clause agreements with terms in excess of one year (dollars in millions):

OPERATING LEASE REVENUES			
FISCAL YEAR	FBF	ASF	TOTAL
2017	\$1,635	15	\$1,650
2018	1,518	3	1,521
2019	1,401	2	1,403
2020	1,262	1	1,263
2021	1,152	-	1,152
2022 and thereafter	7,099	-	7,099
Total future minimum lease revenues	\$14,067	\$21	\$14,088

For four of GSA's buildings, the rental agreements with the customer include transfer of ownership of the buildings at the end of the rental term. Total Workplace currently has nine agreements classified as direct financing capital leases where the furniture and IT equipment will transfer to the lessee at the end of the lease term. The remaining minimum rental payments due from these agreements are as follows (dollars in millions):

DIRECT FINANCING LEASE REVENUES			
FISCAL YEAR	FBF	ASF	TOTAL
2017	\$7	\$22	\$29
2018	8	9	17
2019	8	8	16
2020	8	5	13
2021	4	-	4
2022 and thereafter	24	-	24
Total future minimum lease rentals	\$59	\$44	\$103

Rental income under subleasing agreements and related reimbursable arrangements for tenant improvements and above standard service requirements approximated \$6.4 billion and \$6.6 billion for the years ended September 30, 2016, and 2015 respectively. Rent expense under all operating leases, including short-term non-cancellable leases, was approximately \$5.7 billion and \$5.8 billion for the years ended September 30, 2016, and 2015 respectively. The Consolidated Balance Sheets as of September 30, 2016, and 2015, include capital lease assets of \$402 million and \$402 million for buildings, respectively and accumulated amortization on such structures of \$325 million and \$309 million, respectively. For substantially all of its leased property, GSA expects that in the normal course of business such leases will be either renewed or replaced in accordance with the needs of its customer agencies.

9. Other Liabilities

As of September 30, 2016, and 2015, the components of amounts reported on the Consolidated Balance Sheets as Other Intragovernmental Liabilities and Other Liabilities, are substantially all long-term in nature, with the exception of amounts shown below as Federal Benefit Withholdings, Salaries and Benefits Payable, and Deposits in Clearing Funds, which are current liabilities. Other Intragovernmental Liabilities and Other Liabilities consisted of the following (dollars in millions):

	FBF		ASF		OTHER FUNDS		GSA CONSOLIDATED TOTALS	
	2016	2015	2016	2015	2016	2015	2016	2015
OTHER INTRAGOVERNMENTAL LIABILITIES								
Workers' Compensation Due to DOL	\$18	\$20	\$6	\$6	\$3	\$3	\$27	\$29
Federal Benefit Withholdings	6	4	3	3	5	3	14	10
Deposits in Clearing Funds	-	-	-	-	42	51	42	51
Total Other Intragovernmental Liabilities	\$24	\$24	\$9	\$9	\$50	\$57	\$83	\$90
OTHER LIABILITIES								
Salaries and Benefits Payable	\$22	\$18	\$13	\$9	\$13	\$19	\$48	\$46
Deferred Revenues/Advances from the Public	9	6	1	2	-	-	10	8
Lease Termination Liability (Note 18)	-	-	15	44	-	-	15	44
Contingencies	1	5	-	-	-	-	1	5
Pensions for Former Presidents	-	-	-	-	12	11	12	11
Total Other Liabilities	\$32	\$29	\$29	\$55	\$25	\$30	\$86	\$114

10. Commitments and Contingencies

A. Commitments and Undelivered Orders

In addition to future lease commitments discussed in Note 8, GSA is committed under obligations for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all GSA activities at September 30, 2016, and 2015, were as follows (dollars in millions):

	2016	2015
FBF	\$3,107	\$2,790
ASF	4,205	3,931
Other Funds	300	337
Total Undelivered Orders	\$7,612	\$7,058

B. Contingencies

GSA is a party in various administrative proceedings, legal actions, environmental suits and claims brought by or against it. In the opinion of GSA management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operations of GSA. Based on the nature of each claim, resources available to liquidate these liabilities may be from GSA funds or, in some instances, are covered by the U.S. Treasury's Judgment Fund, as discussed below.

In many cases, legal matters which directly involve GSA relate to contractual arrangements GSA has entered into either for property and services it has

obtained or procured on behalf of other federal agencies. The costs of administering, litigating and resolving these actions are generally borne by GSA unless it can recover the cost from another federal agency. Certain legal matters in which GSA may be a named party are administered and, in some instances, litigated by other federal agencies. Amounts to be paid under any decision, settlement or award pertaining thereto are sometimes funded by those agencies.

No amounts have been accrued in the financial records for claims where the amount of probable loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable. These matters arise in the course of carrying out GSA programs and operations, including contracting actions, operating carbon-fueled vehicles, owning and leasing buildings and facilities for other federal agencies and related claims. Matters for which the likelihood of an unfavorable outcome is less than probable but more than remote involve a wide variety of allegations and claims.

Probable Contingencies covered by GSA

As of September 30, 2016, and 2015, the FBF recorded liabilities in total of \$1 million and \$5 million, respectively, for pending and threatened legal matters for which, in the opinion of GSA management and legal counsel, a loss against the FBF is probable, and the amount of the loss can be estimated.

GSA received a notice of violation regarding environmental compliance from another federal agency in September 2016, pertaining to certain operations of the ASF. An initial conference, prescribed by the notification, to discuss the violation and appropriate actions to remediate has not yet been held. Remediation may require a compliance order or a monetary penalty. Since no determination of enforcement actions has been communicated and due to the preliminary nature of this matter, no reasonable estimate of either possible liability or range of possible liability can be determined for this matter at this time..

Reasonably Possible Contingencies covered by GSA

GSA has contingencies where it is reasonably possible, but not probable, that GSA funds will incur some cost. Accordingly, no balances have been recorded in the financial statements for these contingencies. The ranges of reasonably possible losses for claims to be paid by GSA are as follows (dollars in millions):

	2016		2015	
	Low	High	Low	High
FBF	\$4	\$198	\$14	\$182
ASF	-	1	-	3
Other Funds	-	12	-	1
Total Reasonably Possible Loss Range	\$4	\$211	\$14	\$186

Probable Contingencies not covered by GSA

In many cases, tort and environmental claims are administered and resolved by the U.S. Department of Justice, and any amounts necessary for resolution are obtained from a special Judgment Fund maintained by the U.S. Treasury. In accordance with the FASAB's Interpretation No. 2, Accounting for Treasury Judgment Fund Transactions, costs incurred by the federal government are to be reported by the agency responsible for incurring the liability, or to which liability has been assigned, regardless of the ultimate source of funding. In accordance with this interpretation, as of September 30, 2016, and 2015, GSA's Other Funds recorded \$99 million and \$69 million respectively, of Environmental and Disposals and Other Liabilities for contingencies which will require funding exclusively through the Judgment Fund. Substantially all of those amounts result from several environmental cases outstanding at the end of FYs 2016 and 2015 respectively, where GSA has been named as a potentially responsible party. Environmental costs are estimated in accordance with the FASAB Accounting and Auditing Policy Committee's Federal Financial Accounting and Auditing Technical Release No. 2, Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.

The recognition of claims to be funded through the Judgment Fund on GSA Consolidated Statements of Net Cost and Consolidated Balance Sheets is, in effect, recognition of these liabilities against the federal government as a whole, and should not be interpreted as claims against the assets or resources of any GSA fund, nor will any future resources of GSA be required to liquidate any resulting losses. Further, for most environmental claims, GSA has no managerial responsibility other than as custodian and successor on claims made against former federal entities, particularly former World War II defense related activities.

Reasonably Possible Contingencies not covered by GSA

The ranges for contingencies subject to ultimate funding from the Judgment Fund where the risk of loss is reasonably possible, but not probable, are as follows (dollars in millions):

	2016		2015	
	Low	High	Low	High
FBF	\$69	\$102	\$69	\$111
ASF	-	90	-	90
Other Funds	125	168	125	125
Total Reasonably Possible Range of Loss for Claims to be Paid by the U.S. Treasury Judgment Fund	\$194	\$360	\$194	\$326

Judgment Fund Payments

Amounts paid from the Judgment Fund on behalf of GSA were as follows (dollars in millions):

	2016	2015
FBF	\$25	\$14
ASF	-	1
Other Funds	3	4
Total Judgment Fund Payments	\$28	\$19

Of these amounts, all significant balances are related to claims filed under the Contract Disputes

Act for which payments have been or will be made to reimburse the Judgment Fund by the GSA funds liable under the contracts in dispute. The balance of claims paid on behalf of GSA does not require reimbursement to the Judgment Fund.

11. Unfunded Liabilities

As of September 30, 2016, and 2015, budgetary resources were not yet available to fund certain liabilities reported on the Consolidated Balance Sheets. For such liabilities, most are long-term in nature where funding is generally made available in the year payments are due or anticipated. The portion of liabilities reported on the Consolidated Balance Sheets that are not covered by budgetary resources consists of the following (dollars in millions):

	2016	2015
Judgment Fund Liability	\$482	\$458
Deferred Revenues and Advances - Federal	283	298
Amounts Owed to the General Fund	36	38
Other Intragovernmental Liabilities	70	80
Total Intragovernmental Liabilities Not Covered by Budgetary Resources	871	874
Environmental and Disposal	2,092	2,240
Capital Lease and Installment Purchase Liability	573	534
Workers' Compensation Actuarial Liabilities	115	122
Unamortized Rent Abatement Liability	445	416
Annual Leave Liability	106	105
Deposit Fund Liability	32	44
Other Liabilities	38	68
Total Non-Intragovernmental Liabilities Not Covered By Budgetary Resources	3,401	3,529
Total Liabilities Not Covered by Budgetary Resources	4,272	4,403
Total Liabilities Covered By Budgetary Resources	2,593	2,132
Total Liabilities	\$6,865	\$6,535

Certain balances, while also unfunded by definition (as no budgetary resources have been applied), will be liquidated from resources outside of the traditional budgeting process and require no further congressional action to do so. Such balances include: 1) amounts reported in the Consolidated Balance Sheets under the captions Unamortized Rent Abatement Liability and Deposit Fund Liability; 2) the portion of amounts included in Other Intragovernmental Liabilities shown as Deposits Held in Suspense and Earnings Payable to Treasury in Note 9; and 3) substantially all amounts included in Other Liabilities shown as Deferred Revenues/Advances From the Public in Note 9.

12. Reconciliation to the President's Budget

In accordance with FASAB SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, if there are differences between amounts reported in these financial statements versus those reported in the most recent Budget of the United States Government (President's Budget), they must be disclosed. With the President's Budget generally released in February each year, the most current comparable data is the FY 2017 President's Budget, which contains FY 2015 financial statement results. The FY 2018 President's Budget, containing FY 2016 actual results is expected to be released

in February 2017 on OMB's web site, although this release may be delayed due to the transition of Administrations. The portion of the President's Budget relating specifically to GSA can be found in the appendix of that report. Balances submitted to the U.S. Treasury constitute the basis for reporting of actual results in the President's Budget. The basis of the President's Budget and the CSBR is data reported to the U.S. Treasury on the Reports on Budget Execution and Budgetary Resources (SF 133s). Reconciling differences are caused by the presentation style of the President's Budget, which excludes Budgetary Resources, Obligations Incurred and Unobligated Balances in expired annual funds, as well as offsetting collections, which are required for reporting on the CSBR. Small rounding differences may also exist between the CSBR and the President's Budget due to an alternative rounding methodology used by GSA.

The following two schedules highlight the most significant comparable amounts reported in the FY 2015 CSBR and FY 2017 President's Budget (dollars in millions). The first schedule shows the total differences where the CSBR contains balances greater or (less) than amounts reported in the President's Budget by fund. Following this is a second schedule displaying the components of each difference at the combined level.

	FBF		ASF		OTHER FUNDS		GSA CONSOLIDATED TOTALS		
	CSBR	Pres. Bud- get	CSBR	Pres. Budget	CSBR	Pres. Bud- get	CSBR	Pres. Bud- get	Difference
Budgetary Resources	\$18,773	\$18,750	\$12,363	\$12,363	\$1,218	\$1,155	\$32,354	\$32,268	\$86
Obligations Incurred	10,987	10,975	10,514	10,514	992	991	22,493	22,480	13
Unobligated Balances	7,786	7,775	1,849	1,849	226	164	9,861	9,788	73
Balance of Obligations	57	58	(717)	(716)	363	365	(297)	(293)	(4)
Outlays	(998)	(999)	(2)	(3)	121	229	(879)	(773)	(106)
			Budgetary Resources		Obligations Incurred		Unobligated Balance		Net Outlays
Combined Statement of Budgetary Resources			\$32,354		\$22,493		\$9,861		\$(879)
Expired Funds, Not Reflected in the Budget			(84)		(13)		(71)		-
Offsetting Receipts Not Reflected in the Budget			-		-		-		107
Other			(2)		-		(2)		(1)
Budget of the U.S. Government			\$32,268		\$22,480		\$9,788		\$(773)

13. Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources (CSBR) presents GSA budgetary results in accordance with reporting requirements prescribed in OMB Circular A-11, Preparation, Submission, and Execution of the Budget. In consolidated reporting by OMB and the U.S. Treasury, for the U.S. government as a whole, substantially all of GSA's program operations and operating results are categorized as general government functions.

Balances reported on the CSBR as Prior Year Recoveries generally reflect the downward adjustment of obligations that originated in prior fiscal years which have been cancelled or reduced in the current fiscal year. These balances may also include the effect of adjustments caused when an obligation is modified to change the applicable program, or budget activity. In managing and controlling spending in GSA funds on a fund-by-fund basis, unique budget control levels (such as programs, budget activities or projects) are established. These levels are based on legislative limitations, OMB apportionment limitations, as well as management-defined allotment control limitations, in order to track and monitor amounts available for spending and obligations incurred against such amounts, as is required under the Antideficiency Act. When an obligation from a prior year is modified to change the budget control level of an obligation, a Prior Year Recovery would be credited to the level that was initially charged, and Obligations Incurred would be charged to the new level. While there may be no net change to total obligations in a particular fund, offsetting balances from the upward and downward adjustments would be reported on the corresponding lines of the CSBR.

The basis of the CSBR is data reported to the U.S. Treasury on the SF 133s. There were no significant differences between the balances used to prepare the CSBR and the SF 133s in FY 2016 or FY 2015.

14. Consolidated Statements of Changes in Net Position

A. Cumulative Results of Operations

Cumulative results of operations for Revolving Funds include the net cost of operations since their inception, reduced by funds returned to the U.S. Treasury, by congressional rescissions, and by transfers to other federal agencies, in addition to balances representing invested capital. Invested capital includes amounts provided to fund certain GSA assets, principally land, buildings, construction in process, and equipment, as well as appropriated capital provided as the corpus of a fund (generally to meet operating working capital needs).

The FBF, ASF, WCF and FCSF have legislative authority to retain portions of their cumulative results for specific purposes. The FBF retains cumulative results to finance future operations and construction, subject to appropriation by Congress. In the ASF, such cumulative results are retained to cover the cost of replacing the motor vehicle fleet and supply inventory as well as to provide financing for major systems acquisitions and improvements, contract conversion costs, major contingencies, and to maintain sufficient working capital. The WCF retains cumulative results to finance future systems improvements and certain operations. The FCSF retains cumulative results to finance future operations, subject to appropriation by Congress.

Cumulative Results of Operations on the Consolidated Balance Sheets include balances of funds from dedicated collections as defined in FASAB SFFAS No. 43, which totaled \$130 million and \$134 million as of September 30, 2016, and 2015, respectively. As further discussed in Notes 1 and 2, balances of funds from dedicated collections are those reported in GSA's Special Funds and Trust Funds, within the Other Funds display on the Consolidated Balance Sheets.

B. Unexpended Appropriations

Unexpended Appropriations consist of unobligated balances and undelivered orders, net of unfilled customer orders in funds that receive appropriations.

Undelivered orders are orders placed by GSA with vendors for goods and services that have not been received. Unfilled customer orders are reimbursable orders placed with GSA by other agencies, other GSA funds, or from the public, where GSA has yet to provide the good or service requested. At September 30, 2016, and 2015, balances reported as unexpended appropriations were as follows (dollars in millions):

	FBF	OTHER FUNDS	TOTAL GSA
2016			
Unobligated Balances:			
Available	\$18	\$58	\$76
Unavailable	9	58	67
Undelivered Orders	42	62	104
Unfilled Customer Orders	-	-	-
Total Unexpended Appropriations	\$69	\$178	\$247
2015			
Unobligated Balances:			
Available	\$55	\$39	\$94
Unavailable	15	60	75
Undelivered Orders	19	69	88
Unfilled Customer Orders	-	(2)	(2)
Total Unexpended Appropriations	\$89	\$166	\$255

15. Employee Benefit Plans

A. Background

Although GSA funds a portion of pension benefits for its employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), and makes the necessary payroll withholdings, GSA is not required to disclose the assets of the systems or the actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. Reporting such amounts is the direct responsibility of the Office of Personnel Management (OPM). Reporting of health care benefits for retired employees is also the direct responsibility of OPM.

In accordance with FASAB SFFAS No. 5, GSA recognizes the normal cost of pension programs and the normal cost of other post-employment health and life insurance benefits, as defined in that standard, on the Consolidated Statements of Net Cost. While contributions submitted by GSA to OPM do cover a significant portion of the normal cost of retirement benefits, the contribution rates defined in law do not cover the full normal cost of those retirement benefits. To achieve the recognition of the full normal cost required by SFFAS No. 5, GSA records the combination of funded cost for the amount of agency contributions, and imputed cost for the portion of normal costs not covered by contributions. Amounts recognized as normal cost related to contributions, as well as imputed costs are further provided below.

B. Civil Service Retirement System

At the end of FY 2016, 6.7 percent (down from 8.5 percent in FY 2015) of GSA employees were covered by the CSRS, a defined benefit plan. Total GSA (employer) contributions (7.5 percent of base pay for law enforcement employees, and 7.0 percent for all others) to CSRS for all employees were as follows (dollars in millions):

	2016	2015
FBF	\$2	\$3
ASF	2	2
Other Funds	2	3
Total Employer Contributions	\$6	\$8

C. Federal Employees Retirement System

On January 1, 1987, the FERS, a mixed system of defined benefit and defined contribution plans, went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired before January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. As of September 30, 2016, 93.0 percent (up from 91.3 percent in FY 2015) of GSA employees were covered under FERS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the federal government's Thrift Savings Plan (TSP) for each employee. All employees could invest up to \$18,000 in their TSP account in both calendar years 2016 and 2015. In addition, for FERS employees, GSA automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. For both calendar years 2016 and 2015, total contributions made on behalf of an employee could not exceed \$53,000. For FY 2016 the GSA (employer) contributions to FERS (30.1 percent of base pay for law enforcement employees and 13.7 percent for all others) and for FY 2015 the GSA (employer) contributions to FERS (28.8 percent of base pay for law enforcement employees and 13.2 percent for all others), were as follows (dollars in millions):

	2016	2015
FBF	\$64	\$59
ASF	39	34
Other Funds	39	37
Total Employer Contributions	\$142	\$130

Additional GSA contributions to the TSP were as follows (dollars in millions):

	2016	2015
FBF	\$21	\$20
ASF	13	12
Other Funds	12	12
Total Employer Contributions	\$46	\$44

D. Social Security System

GSA also makes matching contributions for programs of the Social Security Administration under the Federal Insurance Contributions Act. For employees covered by FERS, GSA contributed 6.2 percent of gross pay (up to \$118,500 in both calendar years 2016 and 2015,) to SSA's Old-Age, Survivors, and Disability Insurance (OASDI) program in calendar year 2016. Additionally, GSA makes matching contributions for all employees of 1.45 percent of gross pay to the Medicare Hospital Insurance program in calendar year 2016. In FY 2016 and 2015, 0.3 percent and 0.2 percent, respectively, of GSA employees are covered exclusively by these programs. Payments to these programs were as follows (dollars in millions):

	2016	2015
FBF	\$36	\$35
ASF	21	20
Other Funds	20	20
Total Employer Contributions	\$77	\$75

E. Schedule of Unfunded Benefit Costs

Amounts recorded in FYs 2016 and 2015, in accordance with FASAB SFFAS No. 5, for imputed post-employment benefits were as follows (dollars in millions):

	PENSION BENEFITS	HEALTH/LIFE INSURANCE	TOTAL
2016			
FBF	\$9	\$28	\$37
ASF	6	16	22
Other Funds	7	15	22
Total Unfunded Benefit Costs	\$22	\$59	\$81

	PENSION BENEFITS	HEALTH/LIFE INSURANCE	TOTAL
2015			
FBF	\$11	\$25	\$36
ASF	8	13	21
Other Funds	9	14	23
Total Unfunded Benefit Costs	\$28	\$52	\$80

16.Reconciliation of Net Costs of Operations to Budget

The recognition of earning reimbursable budgetary resources and spending budgetary resources on the CSBR generally has a direct or causal relationship to revenues and expenses recognized on the Consolidated Statements of Net Cost. The reconciliation schedules below bridge the gap between these sources and uses of budgetary resources with the operating results reported on the Consolidated Statements of Net Cost for the fiscal years ended September 30, 2016, and 2015, (dollars in millions):

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
RESOURCES USED TO FINANCE ACTIVITIES										
Obligations Incurred	\$10,700	\$10,987	\$11,633	\$10,514	\$1,008	\$992	\$-	\$-	\$23,341	\$22,493
Less: Spending Authority From Offsetting Collections and Adjustments	(12,015)	(11,367)	(11,379)	(10,289)	(755)	(714)	-	-	(24,149)	(22,370)
Financing Imputed for Cost Subsidies	56	58	37	39	26	30	35	45	84	82
Other	(23)	(47)	1	13	131	(19)	-	-	109	(53)
Total Resources Used to Finance Activities	(1,282)	(369)	292	277	\$410	289	\$35	\$45	(615)	152

RESOURCES USED THAT ARE NOT PART OF THE NET COST OF OPERATIONS										
(Increase)/Decrease in Goods and Services Ordered But Not Yet Received	(317)	(323)	(274)	(563)	38	(28)	-	-	(553)	(914)
Increase/(Decrease) in Unfilled Customer Orders	563	(310)	210	521	11	(4)	-	-	784	207
Costs Capitalized on the Balance Sheet	(1,078)	(1,196)	(1,043)	(870)	(14)	(14)	-	-	(2,135)	(2,080)
Financing Sources Funding Prior Year Costs	(24)	10	2	(18)	(44)	9	-	-	(66)	1
Other	6	35	(25)	43	(84)	-	-	-	(103)	78
Total Resources Used That Are Not Part of the Net Cost of Operations	(850)	(1,784)	(1,130)	(887)	(93)	(37)	-	-	(2,073)	(2,708)

COSTS FINANCED BY RESOURCES RECEIVED IN PRIOR PERIODS										
Depreciation and Amortization	1,622	1,618	540	522	9	14	-	-	2,171	2,154
Net Book Value of Property Sold	-	-	290	248	-	-	-	-	290	248
Other	39	106	-	-	-	-	-	-	39	106
Total Costs Financed by Resources Received in Prior Periods	1,661	1,724	830	770	9	14	-	-	2,500	2,508

COSTS REQUIRING RESOURCES IN FUTURE PERIODS										
Unfunded Capitalized Costs	11	12	-	-	-	-	-	-	11	12
Unfunded Current Expenses	(145)	(203)	-	(4)	32	-	-	-	(113)	(207)
Total Costs Requiring Resources in Future Periods	(134)	(191)	-	(4)	32	-	-	-	(102)	(195)
Net (Revenues From) Cost of Operations	\$(605)	\$(620)	\$(8)	\$156	\$358	\$266	\$35	\$45	\$(290)	\$(243)

17. Net Cost by Responsibility Segment

OMB Circular No. A-136, Financial Reporting Requirements, requires that the presentation of the Consolidated Statements of Net Cost align with the goals and outcomes identified in the agency's strategic plan. The strategic goals presented in GSA's Consolidated Statements of Net Cost are derived from the missions of the agency's two largest service organizations: the Public Buildings Service (PBS), which manages the Federal Buildings Fund (FBF), and the Federal Acquisition Service (FAS), which manages the Acquisition Services Fund (ASF). The PBS manages building operations by overseeing the design, construction, leasing, and maintenance of government-owned and leased facilities. Responsibility segments include the Government-Owned Building Portfolio and the Leased Building Portfolio. The FAS is organized into four main business portfolios and three initiatives: General Supplies and Services, Travel, Motor Vehicles and Card Services (TMVCS), Integrated Technology Services, Assisted Acquisition Services (AAS), Integrated Award Environment, Common Acquisition Platform, and

Technology Transformation Service (TTS). The FAS provides acquisition services by leveraging the buying power of the federal government to obtain best values. In May of 2016, a new organization, TTS was created. TTS includes the 18F consulting group, the Presidential Innovation Fellows (PIF) program, and the Office of Citizen Services, Innovative Technologies (OCSIT). The 18F and PIF programs are funded through the ASF. An additional TTS program, Electronic Capital Planning Investment Control, is funded through the Working Capital Fund (WCF). The GSA agency-wide strategic plan goals of providing cost savings to customers, increasing operational efficiency, and delivering excellent customer service are embedded in the missions of the service organizations. Revenues and expenses not associated with the PBS or the FAS are reported as Working Capital and General Programs. Eliminations of intra-agency activity are recorded against the organization providing the goods or services. The following tables present the FY 2016 and FY 2015 net operating results by strategic goal for each responsibility segment.

For the Year Ended September 30, 2016

(Dollars in Millions)

For the Year Ended September 30, 2016 (Dollars in Millions)														
	FBF - Owned	FBF - Leased	ASF - GS&S	ASF - TMVCS	ASF - ITS	ASF - AAS	ASF - OTHER	TTS - 18F/ PIF	TTS - OCSIT, ECPIC	WCF	OTHER GENERAL FUNDS	GSA COMBINED	ELIM	GSA CONSOLIDATED
Manage Building Operations														
Earned Revenues	\$4,878	\$6,410	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$11,288	72	\$11,216
Less: Operating Expenses	4,171	6,512	-	-	-	-	-	-	-	-	-	10,683	90	10,593
Net Revenues from (Cost of) Operations	707	(102)	-	-	-	-	-	-	-	-	-	605	(18)	623
Provide Acquisition Services														
Earned Revenues	-	-	979	1,954	1,770	4,556	66	33	-	-	-	9,358	171	9,187
Less: Operating Expenses	-	-	1,031	1,727	1,810	4,553	188	54	-	-	-	9,363	186	9,177
Net Revenues from (Cost of) Continuing Operations	-	-	(52)	227	(40)	3	(122)	(21)	-	-	-	(5)	(15)	10
Discontinued Operations:														
Earned Revenues	-	-	1	-	-	-	-	-	-	-	-	1	-	1
Less: Operating Expenses	-	-	(12)	-	-	-	-	-	-	-	-	12	-	(12)
Net Revenues from (Cost of) Discontinued Operations	-	-	13	-	-	-	-	-	-	-	-	13	-	13
Net Revenues from (Cost of) Operations	-	-	(39)	277	(40)	3	(122)	(21)	-	-	-	8	(15)	23
Working Capital and General Programs														
Earned Revenues	-	-	-	-	-	-	-	-	12	671	26	709	656	53
Less: Operating Expenses	-	-	-	-	-	-	-	-	69	732	266	1,067	658	409
Net Revenues from (Cost of) Operations	-	-	-	-	-	-	-	-	(57)	(61)	(240)	(358)	(2)	(356)
GSA Consolidated Net Results														
Earned Revenues	4,878	6,410	980	1,954	1,770	4,556	66	33	12	671	26	21,356	899	20,457
Less: Operating Expenses	4,171	6,512	1,019	1,727	1,810	4,553	188	54	69	732	266	21,101	934	20,167
Net Revenues from (Cost of) GSA Operations	\$707	\$(102)	\$(39)	\$227	\$(40)	\$3	\$(122)	\$(21)	\$(57)	\$(61)	\$(240)	\$255	\$(35)	\$290

For the Year Ended September 30, 2015

(Dollars in Millions)

For the Year Ended September 30, 2015 (Dollars in Millions)														
	FBF - Owned	FBF - Leased	ASF - GS&S	ASF - TMVCS	ASF - ITS	ASF - AAS	ASF - OTHER	TTS - 18F/ PIF	TTS - OCSIT, ECPIC	WCF	OTHER GENERAL FUNDS	GSA COMBINED	ELIM	GSA CONSOLIDATED
Manage Building Operations														
Earned Revenues	\$4,811	\$6,591	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$11,402	\$84	\$11,318
Less: Operating Expenses	4,128	6,654	-	-	-	-	-	-	-	-	-	10,782	109	10,673
Net Revenues from (Cost of) Operations	\$683	(63)	-	-	-	-	-	-	-	-	-	\$620	(25)	\$645
Provide Acquisition Services														
Earned Revenues	-	-	965	1,701	1,689	3,790	90	-	-	-	-	8,235	116	8,119
Less: Operating Expenses	-	-	997	1,684	1,662	3,793	167	-	-	-	-	8,303	133	8,170
Net Revenues from (Cost of) Continuing Operations	-	-	(32)	17	27	(3)	(77)	-	-	-	-	(68)	(17)	(51)
Discontinued Operations:														
Earned Revenues	-	-	6	-	-	-	-	-	-	-	-	6	-	6
Less: Operating Expenses	-	-	94	-	-	-	-	-	-	-	-	94	-	94
Net Revenues from (Cost of) Discontinued Operations	-	-	(88)	-	-	-	-	-	-	-	-	(88)	-	(88)
Net Revenues from (Cost of) Operations	-	-	(120)	17	27	(3)	(77)	-	-	-	-	(156)	(17)	(139)
Working Capital and General Programs														
Earned Revenues	-	-	-	-	-	-	-	-	-	681	26	707	662	45
Less: Operating Expenses	-	-	-	-	-	-	-	-	-	687	286	973	665	308
Net Revenues from (Cost of) Operations	-	-	-	-	-	-	-	-	-	(6)	(260)	(266)	(3)	(263)
GSA Consolidated Net Results														
Earned Revenues	4,811	6,591	971	1,701	1,689	3,790	90	-	-	681	26	20,350	862	19,488
Less: Operating Expenses	4,128	6,654	1,091	1,684	1,662	3,793	167	-	-	687	286	20,152	907	19,245
Net Revenues from (Cost of) GSA Operations	\$683	\$(63)	\$(120)	\$17	\$27	\$(3)	\$(77)	\$-	\$-	\$(56)	\$(260)	\$198	\$(45)	\$243

The accompanying notes are an integral part of these statements.

18. Discontinued Operations

In an effort to modernize its supply chain, GSA ceased operations at warehouse distribution centers in French Camp, CA and Burlington, NJ on September 30, 2014, and December 31, 2014, respectively. The transition to a vendor direct delivery method of supply is expected to improve delivery times while reducing costs related to leasing, labor, infrastructure, maintenance, storage, and transportation. In FY 2015, GSA recognized \$49 million associated with the early termination of the lease agreement on the Burlington, NJ facility. The lease agreement is effective until December 13, 2020, requires the agency to provide security services, and does not contain a clause for early termination. An additional \$16 million in costs were incurred in FY 2015 to replace the legacy order processing systems. The new Order Management System (OMS) is expected

to modernize order placement, pricing, and vendor management systems that no longer meet customer requirements. Other FY 2015 operating expenses specific to discontinued operations include: contract labor for three months, employee separation costs, transportation and transfers of inventories, and write-offs of inventories and other fixed assets. In FY 2016, GSA executed a sublease agreement on the Burlington, NJ warehouse, reducing the associated liability by \$20 million. The positive net income of \$13 million is directly attributable to the reduction in the long-term lease liability.

CONSOLIDATING FINANCIAL STATEMENTS

U.S. General Services Administration

SCHEDULE 1

Consolidating Balance Sheets

As of September 30, 2016 and 2015

(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
ASSETS										
Intragovernmental Assets:										
Fund Balance with Treasury (Notes 1-D, 2)	\$ 8,894	\$ 7,816	\$ 922	\$ 1,132	\$ 785	\$ 800	\$ -	\$ -	\$ 10,601	\$ 9,748
Accounts Receivable - Federal, Net (Note 4)	483	516	1,769	1,303	3	5	60	23	2,195	1,801
Capital Lease Payments Receivable (Note 8)	59	67	44	41	-	-	-	-	103	108
Prepaid Expenses and Advances - Federal	2	1	2	2	-	-	-	-	4	3
Total Intragovernmental Assets	9,438	8,400	2,737	2,478	788	805	60	23	12,903	11,660
Accounts Receivable - Non-Federal, Net (Note 4)	22	17	110	114	18	24	-	-	150	155
Inventories (Note 1-E)	-	-	14	21	-	-	-	-	14	21
Other Assets (Note 5)	176	140	50	38	-	1	-	-	226	179
Property and Equipment: (Notes 1-F, 6)										
Buildings	45,150	44,085	-	-	-	-	-	-	45,150	44,085
Leasehold Improvements	299	297	30	27	2	-	-	-	331	324
Motor Vehicles	-	-	5,579	5,352	-	-	-	-	5,579	5,352
Equipment and Other Property	185	187	380	364	152	228	-	-	717	779
Less: Accumulated Depreciation and Amortization	(25,109)	(23,597)	(2,250)	(2,213)	(129)	(173)	-	-	(27,488)	(25,983)
Subtotal	20,525	20,972	3,739	3,530	25	55	-	-	24,289	24,557
Land	1,678	1,692	-	-	-	-	-	-	1,678	1,692
Construction in Process and Software in Development	1,076	1,131	1	3	1	7	-	-	1,078	1,141
Total Property and Equipment, Net	23,279	23,795	3,740	3,533	26	62	-	-	27,045	27,390
TOTAL ASSETS	\$ 32,915	\$ 32,352	\$ 6,651	\$ 6,184	\$ 832	\$ 892	\$ 60	\$ 23	\$ 40,338	\$ 39,405
LIABILITIES AND NET POSITION										
Intragovernmental Liabilities:										
Accounts Payable and Accrued Expenses - Federal	\$ 14	\$ 25	\$ 30	\$ 23	\$ 61	\$ 19	\$ 60	\$ 23	\$ 45	\$ 44
Judgment Fund Liability (Note 11)	481	457	1	1	-	-	-	-	482	458
Deferred Revenues and Advances - Federal (Note 11)	298	294	7	4	39	26	-	-	344	324
Amounts Owed to the General Fund (Note 11)	-	-	-	-	36	38	-	-	36	38
Other Intragovernmental Liabilities (Notes 9, 11)	24	24	9	9	50	57	-	-	83	90
Total Intragovernmental Liabilities	817	800	47	37	186	140	60	23	990	954
Accounts Payable and Accrued Expenses - Non-Federal	966	974	1,439	1,004	9	11	-	-	2,414	1,989
Environmental and Disposal Liabilities (Notes 6, 11)	1,993	2,171	-	-	99	69	-	-	2,092	2,240
Capital Lease and Installment Purchase Liability (Note 11)	585	551	-	-	-	-	-	-	585	551
Unamortized Rent Abatement Liability (Note 11)	445	416	-	-	-	-	-	-	445	416
Workers' Compensation Actuarial Liability (Notes 7, 11)	76	81	25	26	14	15	-	-	115	122
Annual Leave Liability (Notes 1-G, 11)	47	47	30	29	29	29	-	-	106	105
Deposit Fund Liability (Note 11)	-	-	-	-	32	44	-	-	32	44
Other Liabilities (Notes 9, 11)	32	29	29	55	25	30	-	-	86	114
Total Liabilities	4,961	5,069	1,570	1,151	394	338	60	23	6,865	6,535
Net Position: (Note 14)										
Cumulative Results of Operations	27,885	27,194	5,081	5,033	260	388	-	-	33,226	32,615
Unexpended Appropriations	69	89	-	-	178	166	-	-	247	255
Total Net Position	27,954	27,283	5,081	5,033	438	554	-	-	33,473	32,870
TOTAL LIABILITIES AND NET POSITION	\$ 32,915	\$ 32,352	\$ 6,651	\$ 6,184	\$ 832	\$ 892	\$ 60	\$ 23	\$ 40,338	\$ 39,405

The accompanying notes are an integral part of these statements.
See Accompanying Independent Auditors' Report.

U.S. General Services Administration

SCHEDULE 2

Consolidating Statements of Net Cost

For the Fiscal Years Ended September 30, 2016 and 2015
(Dollars in Millions)

	2016			2015		
	REVENUES	EXPENSES	NET REVENUES FROM (COST OF) OPERATIONS	REVENUES	EXPENSES	NET REVENUES FROM (COST OF) OPERATIONS
FEDERAL BUILDINGS FUND:						
Building Operations - Government Owned	\$ 4,878	\$ 4,171	\$ 707	\$ 4,811	\$ 4,128	\$ 683
Building Operations - Leased	6,410	6,512	(102)	6,591	6,654	(63)
Subtotal	11,288	10,683	605	11,402	10,782	620
ACQUISITION SERVICES FUND:						
General Supplies and Services (Excluding Stock Program)	979	1,031	(52)	965	997	(32)
Travel, Motor Vehicles, and Card Services	1,954	1,727	227	1,701	1,684	17
Integrated Technology Services	1,770	1,810	(40)	1,689	1,662	27
Assisted Acquisition Services	4,556	4,553	3	3,790	3,793	(3)
Other Programs	99	242	(143)	90	167	(77)
Subtotal of Continuing Operations	9,358	9,363	(5)	8,235	8,303	(68)
Discontinued Operations: GS&S Stock Program	1	(12)	13	6	94	(88)
Subtotal	9,359	9,351	8	8,241	8,397	(156)
OTHER FUNDS:						
Working Capital Fund	676	737	(61)	681	687	(6)
Other General Funds	33	330	(297)	26	286	(260)
Subtotal	709	1,067	(358)	707	973	(266)
INTRA-GSA ELIMINATIONS:						
Less: Intra-GSA Eliminations	899	934	(35)	862	907	(45)
GSA Consolidated Totals	\$ 20,457	\$ 20,167	\$ 290	\$ 19,488	\$ 19,245	\$ 243

U.S. General Services Administration

SCHEDULE 3

Consolidating Statements of Changes in Net Position

For the Fiscal Years Ended September 30, 2016 and 2015

(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
BEGINNING BALANCE OF NET POSITION:										
Cumulative Results of Operations	\$27,194	\$26,326	\$5,033	\$5,169	\$388	\$362	-	-	\$32,615	\$31,857
Unexpended Appropriations	89	230	-	-	166	169	-	-	255	399
Net Position Beginning Balance	27,283	26,556	5,033	5,169	554	531	-	-	32,870	32,256
RESULTS OF OPERATIONS:										
Net Revenues From (Cost of) Operations	605	620	8	(156)	(358)	(266)	(35)	(45)	290	243
Appropriations Used (Note 1-C)	9	141	-	-	240	243	-	-	249	384
Non-Exchange Revenue (Notes 1-C, 1-D)	1	-	-	-	98	92	-	-	99	92
Imputed Financing Provided By Others	56	58	37	39	26	30	35	45	84	82
Transfer of Earnings Paid and Payable to U.S. Treasury	-	-	-	-	(76)	(73)	-	-	(76)	(73)
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	20	49	3	(19)	(42)	12	-	-	(19)	42
Other	-	-	-	-	(16)	(12)	-	-	(16)	(12)
Net Results of Operations	691	868	48	(136)	(128)	26	-	-	611	758
CHANGES IN UNEXPENDED APPROPRIATIONS:										
Appropriations Received	-	-	-	-	254	241	-	-	254	241
Appropriations Used	(9)	(141)	-	-	(240)	(243)	-	-	(249)	(384)
Appropriations Adjustments and Transfers From Other Agencies or Funds	(11)	-	-	-	(2)	(1)	-	-	(13)	(1)
Net Change in Unexpended Appropriations	(20)	(141)	-	-	12	(3)	-	-	(8)	(144)
ENDING BALANCE OF NET POSITION:										
Cumulative Results of Operations	27,885	27,194	5,081	5,033	260	388	-	-	33,226	32,615
Unexpended Appropriations	69	89	-	-	178	166	-	-	247	255
Net Position Ending Balance	\$27,954	\$27,283	\$5,081	\$5,033	\$438	\$554	-	-	\$33,473	\$32,870

The accompanying notes are an integral part of these statements.
See Accompanying Independent Auditors' Report.

U.S. General Services Administration

SCHEDULE 4

Combining Statements of Budgetary Resources

For the Fiscal Years Ended September 30, 2016 and 2015

(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		GSA COMBINED TOTALS	
	2016	2015	2016	2015	2016	2015	2016	2015
BUDGETARY RESOURCES								
Unobligated Balance from Prior Year Budget Authority:								
Unobligated Balance Brought Forward, October 1	\$ 4,219	\$ 4,465	\$ 1,849	\$ 2,074	\$ 226	\$ 247	\$ 6,294	\$ 6,786
Adjustment to Unobligated Balance Brought Forward	-	-	(34)	-	1	-	(33)	-
Recoveries of Prior Year Unpaid Obligations	129	195	287	230	25	14	441	439
Other Changes in Unobligated Balance	3	21	5	5	(18)	(5)	(10)	21
Unobligated Balance from Prior Year Budget Authority, Net	4,351	4,681	2,107	2,309	234	256	6,692	7,246
Appropriations, Net	-	-	-	-	280	263	280	263
Collections	11,356	11,444	10,403	9,883	731	709	22,490	22,036
Change in Uncollected Customer Payments	516	(293)	718	171	(4)	(10)	1,230	(132)
Previously Unavailable	3,567	2,941	-	-	-	-	3,567	2,941
Resources Temporarily Not Available	(3,187)	(3,567)	-	-	-	-	(3,187)	(3,567)
Total Spending Authority from Offsetting Collections	12,252	10,525	11,121	10,054	727	699	24,100	21,278
Total Budgetary Resources	16,603	15,206	13,228	12,363	1,241	1,218	31,072	28,787
STATUS OF BUDGETARY RESOURCES								
Obligations Incurred:								
Direct	95	106	-	-	262	256	357	362
Reimbursable	10,605	10,881	11,633	10,514	746	736	22,984	22,131
Total Obligations Incurred	10,700	10,987	11,633	10,514	1,008	992	23,341	22,493
Unobligated Balance:								
Apportioned	5,755	4,205	640	1,849	118	59	6,513	6,113
Unapportioned	148	14	955	-	115	167	1,218	181
Total Unobligated Balance, End of Period	5,903	4,219	1,595	1,849	233	226	7,731	6,294
Total Status of Budgetary Resources	16,603	15,206	13,228	12,363	1,241	1,218	31,072	28,787
CHANGE IN OBLIGATED BALANCE								
Unpaid Obligations:								
Unpaid Obligations, Brought Forward, October 1, Gross	3,804	3,479	4,999	4,601	380	340	9,183	8,420
Obligations Incurred	10,700	10,987	11,633	10,514	1,008	992	23,341	22,493
Outlays, Gross	(10,282)	(10,467)	(10,618)	(9,886)	(978)	(938)	(21,878)	(21,291)
Recoveries of Prior Year Unpaid Obligations	(129)	(195)	(287)	(230)	(25)	(14)	(441)	(439)
Unpaid Obligations, End of Period, Gross	4,093	3,804	5,727	4,999	385	380	10,205	9,183
Uncollected Payments:								
Uncollected Customer Payments, Brought Forward, October 1	(3,747)	(4,040)	(5,716)	(5,545)	(17)	(27)	(9,480)	(9,612)
Adjustment to Uncollected Customer Payments, Brought Forward	-	-	34	-	(1)	-	33	-
Change in Uncollected Customer Payments from Federal Sources	(516)	293	(718)	(171)	4	10	(1,230)	132
Uncollected Customer Payments from Federal Sources, End of Period	(4,263)	(3,747)	(6,400)	(5,716)	(14)	(17)	(10,677)	(9,480)
Obligated Balance, Start of Year, Oct 1:	57	(561)	(683)	(944)	362	313	(264)	(1,192)
Obligated Balance, End of Period:	(170)	57	(673)	(717)	371	363	(472)	(297)
BUDGET AUTHORITY AND OUTLAYS, NET								
Budget Authority, Gross	12,252	10,525	11,121	10,054	1,007	962	24,380	21,541
Actual Offsetting Collections	(11,370)	(11,465)	(10,408)	(9,888)	(733)	(710)	(22,511)	(22,063)
Change in Uncollected Customer Payments from Federal Sources	(516)	293	(718)	(171)	4	10	(1,230)	132
Additional Offsets Against Budget Authority	14	21	5	5	1	1	20	27
Budget Authority, Net	380	(626)	-	-	279	263	659	(363)
Gross Outlays	10,282	10,467	10,618	9,886	978	938	21,878	21,291
Less: Offsetting Collections	(11,370)	(11,465)	(10,408)	(9,888)	(733)	(710)	(22,511)	(22,063)
Net Outlays from Operating Activity	(1,088)	(998)	210	(2)	245	228	(633)	(772)
Distributed Offsetting Receipts	-	-	-	-	(85)	(107)	(85)	(107)
Total Net Outlays	\$ (1,088)	\$ (998)	\$ 210	\$ (2)	\$ 160	\$ 121	\$ (718)	\$ (879)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Deferred Maintenance and Repairs

In FY 2014, GSA implemented FASAB SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*, which amended the RSI presentation requirements.

GSA reports Deferred Maintenance and Repairs consistent with the definition in SFFAS 42:

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when they should have been or were scheduled to be and which are put off or delayed for a future period. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

GSA utilizes a Physical Condition Survey (PCS) tool to determine the amount of all repairs and alterations needed to correct major components or systems deficiencies and restore its owned buildings (and certain leased buildings where GSA has responsibility for repairs and alterations) to an acceptable condition, as well as repairs and alterations that will be required in the next several years. GSA requires a PCS for every government-owned, leased, or delegated asset that meets all

the following criteria according to the Real Estate Across the United States (REXUS) system:

- GSA has repair and alteration (R&A) responsibility
- The asset maintains an “active” or “excess” status
- The asset has a real property type of “building” or “structure”

No assets meeting the criteria identified above are excluded from this requirement. The surveys are conducted biennially to inspect and electronically document building conditions, with approximately half of the building inventory being surveyed each year. The PCS is a 37 question survey that provides a regular and consistent assessment of the physical condition of each building's basic structure and systems and an overall assessment of GSA's building inventory. The process of identifying building deficiencies and developing a multi-year plan of repairs and alterations projects begins with the PCS. All repair and alteration projects, not just those associated with DM&R, are prioritized using established weights of the pre-defined criteria and placed in order of importance.

Data collected in the PCS is gathered to support GSA's overall building assessment, workload planning, and budgeting needs, and is not designed to specifically capture data that would be defined as DM&R. However, subsets of the workload planning directly results from conditions classified as DM&R. GSA has determined from analysis of data in PCS, that when applying certain data criteria, results can be used to provide a reasonable estimate to meet the FASAB DM&R reporting objectives. At the end

of FYs 2016 and 2015, based on the analysis of the PCS results, GSA estimates the total cost of DM&R to be approximately \$1,214 million and \$1,230 million, respectively, for activities categorized as work needing to be performed immediately to restore or maintain acceptable condition of the building inventory. Approximately 350 buildings remain to be surveyed by the end of FY 2016.

GSA measures the condition of its inventory of buildings by using an industry accepted metric called the Facility Condition Index (FCI). The FCI is the ratio between total Repair and Alteration Needs and the Functional Replacement Value of an asset (i.e. repair needs divided by the asset's replacement value). As of the end of FY 2016, approximately 81 percent of GSA's inventory, based on square footage, is considered in "Good Condition," with an FCI of 10 percent or less.

Supplemental Schedule of Budgetary Resources

In its principal financial statements, GSA displays balances for the two major funds (FBF and ASF) while combining all remaining funds into an "Other Funds" group. Within the Other Funds group, The Working Capital Fund (WCF) makes up approximately 65% of the total budgetary resources. As the WCF activities are a very significant component of the total Other Funds budgetary results, below is a schedule showing the activities of WCF and Other Funds for the years ended September 30, 2016 and 2015 (dollars in millions):

	OTHER FUNDS EXCLUDING WCF		WORKING CAPITAL FUND		OTHER FUNDS TOTAL	
	2016	2015	2016	2015	2016	2015
BUDGETARY RESOURCES						
Unobligated Balance from Prior Year Budget Authority:						
Unobligated Balance Brought Forward, October 1	\$ 128	\$ 128	\$ 98	\$ 119	\$ 226	\$ 247
Adjustment to Unobligated Balance Brought Forward	1	-	-	-	1	-
Recoveries of Prior Year Unpaid Obligations	6	5	19	9	25	14
Other Changes in Unobligated Balance	(34)	(8)	16	3	(18)	(5)
Unobligated Balance from Prior Year Budget Authority, Net	101	125	133	131	234	256
Appropriations	280	263	-	-	280	263
Spending Authority from Offsetting Collections:						
Collections	47	31	684	678	731	709
Change in Uncollected Customer Payments	1	(7)	(5)	(3)	(4)	(10)
Total Spending Authority from Offsetting Collections	48	24	679	675	727	699
Total Budgetary Resources	429	412	812	806	1,241	1,218
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred:						
Direct	262	253	-	3	262	256
Reimbursable	41	30	705	706	746	736
Total Obligations Incurred	303	283	705	709	1,008	992
Unobligated Balance:						
Apportioned	98	44	20	15	118	59
Unapportioned	28	85	87	82	115	167
Total Unobligated Balance, End of Period	126	129	107	97	233	226
Total Status of Budgetary Resources	429	412	812	806	1,241	1,218
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1, Gross	106	98	274	242	380	340
Obligations Incurred	303	283	705	709	1,008	992
Outlays, Gross	(295)	(270)	(683)	(668)	(978)	(938)
Recoveries of Prior Year Unpaid Obligations	(6)	(5)	(19)	(9)	(25)	(14)
Unpaid Obligations, End of Period, Gross	108	106	277	274	385	380
Uncollected Payments:						
Uncollected Customer Payments, Brought Forward, October 1	(9)	(14)	(9)	(13)	(18)	(27)
Adjustment to Uncollected Customer Payments, Brought Forward	(1)	-	-	-	(1)	-
Change in Uncollected Customer Payments from Federal Sources	(1)	7	5	3	4	10
Uncollected Customer Payments from Federal Sources, End of Period	(11)	(7)	(4)	(10)	(15)	(17)
Obligated Balance, Start of Year, Oct 1:	97	84	265	229	362	313
Obligated Balance, End of Period:	97	99	273	264	370	363
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	\$ 327	\$ 287	\$ 680	\$ 675	\$ 1,007	962
Actual Offsetting Collections	(49)	(32)	(684)	(678)	(733)	(710)
Change in Uncollected Customer Payments from Federal Sources	(1)	7	5	3	4	10
Additional Offsets Against Budget Authority	1	1	-	-	1	1
Budget Authority, Net	278	263	1	-	279	263
Gross Outlays	295	270	683	668	978	938
Less: Offsetting Collections	(48)	(32)	(685)	(678)	(733)	(710)
Net Outlays from Operating Activity	247	238	(2)	(10)	245	228
Distributed Offsetting Receipts	(85)	(107)	-	-	(85)	(107)
Total Net Outlays	\$ 162	\$ 131	\$ (2)	\$ (10)	\$ 160	\$ 121



OTHER INFORMATION


(UNAUDITED)



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

October 14, 2016

TO: DENISE TURNER ROTH
ADMINISTRATOR (A)

FROM: CAROL F. OCHOA 
INSPECTOR GENERAL (J)

SUBJECT: Assessment of GSA's Major Management Challenges for Fiscal Year 2017

As required by the Reports Consolidation Act of 2000, Public Law 106-531, we have prepared the attached statement summarizing what we consider to be the most significant management and performance challenges facing GSA in fiscal year 2017.

Please review at your earliest convenience. Should you wish to respond, please provide your comments by November 14, 2016, and will we append them to our assessment. If you have any questions or wish to discuss our assessment further, please call me at (202) 501-0450. If your staff needs any additional information, they may also contact R. Nicholas Goco, Assistant Inspector General for Auditing, at (202) 501-2322.

Attachment

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THE OFFICE OF INSPECTOR GENERAL'S ASSESSMENT OF GSA'S MAJOR MANAGEMENT CHALLENGES

OCTOBER 2016

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General annually identifies what it considers the most significant management challenges facing the U.S. General Services Administration (GSA). This year we have identified significant challenges in the following areas:

1. Addressing Persistent Challenges within the GSA Schedules Program.
2. Implementing Transactional Data Reporting.
3. Meeting the Government's Evolving Needs for Telecommunication and Integrated Technology Infrastructure Solutions.
4. Managing Complex New Construction Program.
5. Managing Risks related to Large-Scale Exchanges of Real Property.
6. Safeguarding Federal Infrastructure and Providing a Secure Work Environment.
7. Establishing and Operating the Technology Transformation Service.
8. Transitioning GSA's Financial Management Line of Business to the U.S. Department of Agriculture.
9. Improving Internal Controls over Financial Management and Reporting.
10. Protecting Sensitive Information.
11. Minimizing the Risk of Cyberattacks to Federal Building Management and Control Systems.
12. Implementing Enterprise Risk Management.
13. Achieving Sustainability and Environmental Goals.
14. Implementing GSA's Mobile Workforce Strategy.

We discuss these issues in detail below.

ACQUISITION PROGRAMS

GSA's Federal Acquisition Service (FAS) operates at the core of GSA's mission to create efficiency for the federal government's acquisition of goods and services. FAS attempts to accomplish this by consolidating the buying power of the federal government to obtain quality products and services at the best available price. FAS faces several challenges in fulfilling its mission to meet its customers' needs effectively, efficiently, and economically.

ISSUE: GSA continues to face challenges within the GSA Schedules Program.

GSA's Schedules Program remains one of its largest procurement programs with approximately 16,000 contracts and \$33 billion in sales in fiscal year (FY) 2015.¹ FAS manages the program, which aims to provide federal agencies and other authorized users with the best value through a simplified procurement process for purchasing over 11 million commercial products and services. In response to customer feedback, changing market conditions, and contract duplication governmentwide, FAS is initiating changes to the Schedules Program with a goal of providing better pricing and transparency. Several challenges face the Schedules Program, including pricing determinations; contractor compliance; and the hiring, retention, and development of the acquisition workforce.

Implementation of New Pricing Initiatives Presents Contract Evaluation and Administration Challenges for Acquisition Personnel

GSA's Schedules Program operates under the premise that contractors routinely sell commercial products and services in competitive markets and that market forces establish fair and reasonable prices. GSA has recently planned and launched numerous initiatives and tools that affect price analysis, both at the time of contract award and throughout the life of a contract. With these pricing initiatives occurring simultaneously, FAS is challenged to ensure that acquisition personnel have a sufficient understanding of how each initiative works and are able to use them to meet intended goals.

Principal among these initiatives is the Transactional Data Reporting rule. The rule, which was formalized in the Federal Register in June 2016, is currently being implemented as a pilot program. FAS is undergoing a seismic shift to its price analysis approach. Historically, the contracting officer's price analysis, which is a key step in determining fair and reasonable pricing, has evaluated a contractor's offered prices or discounts compared to prices or discounts the contractor offers to its commercial customers. Under this pilot, contracting officers will evaluate a contractor's offered prices compared to a limited subset of prices paid on actual GSA sales. FAS's revised price analysis approach will eliminate both the Price Reductions Clause and the commercial sales practices disclosure requirement – the two key price protections for schedule contracts – in exchange for obtaining contractors' transactional data.²

¹ GSA's Schedule Program is also referred to as Multiple Award Schedules and Federal Supply Schedules.

² Transactional data refers to information regarding the products and/or services government agencies purchase from contractors. This data includes details such as part numbers, quantities, and prices paid.

In May 2015, FAS launched another pricing initiative, the Competitive Pricing Initiative, for products sold under the Schedules Program. This initiative is an analysis of a contractor's current contract (or proposed) pricing compared to prices offered by other contractors for an identical product in the government marketplace. The intent is to address price variabilities and ultimately improve schedule pricing. This initiative is built around the Formatted Product Tool, which is a systems upgrade that identifies outlier pricing. Contractors whose prices fall outside the acceptable range for an identical product are notified of how their pricing relates to the comparative prices. Contracting officers then work with these contractors to determine what action to take. The contractor can decrease the price, justify the price difference, or remove that product from their schedule contract. However, there is no contractual obligation that requires contractors to lower their prices or remove the product from their schedule contract.

FAS also launched the Contract Awarded Labor Category Tool in 2015. This is a tool to assist contracting officers in evaluating pricing for services. It is intended to allow contracting officers to conduct market research from a database of government contract prices for approximately 55,000 labor categories from over 5,000 contracts under the Professional Services Schedule. This tool allows contracting officers to search contract prices by labor category and filter by education level, experience, and worksite.

These new pricing initiatives will have a significant effect on the Schedules Program and FAS will be challenged to ensure that they are effectively implemented. As it works to address this challenge, FAS must ensure that all acquisition personnel fully understand how these changes affect the government contracting process so that they can fulfill their responsibility to achieve and maintain fair and reasonable pricing for customer agencies and drive savings for the taxpayer.

Contractor Compliance

We continue to identify deficiencies in schedule contractors' compliance with contract terms and conditions during our preaward audits. During FY 2015, we identified instances of non-compliance with contract terms and conditions in over 41 percent of audited schedule contracts, resulting in over \$23 million in recommended recoveries. Two significant recurring deficiencies relate to Industrial Funding Fee reporting and unqualified labor.

Contractors are responsible for identifying and reporting schedule contract sales on a quarterly basis by Special Item Number for Industrial Funding Fee payment purposes. From FY 2015 through the first half of FY 2016, we found that 23 percent of audited contractors did not have adequate procedures in place to accumulate and report

schedule contract sales. This is of particular concern in light of the new reporting requirements for schedule contracts under GSA's Transactional Data Reporting rule. Under the rule, contractors will be required to provide significantly more sales data on a more frequent basis. In addition to calculating the Industrial Funding Fee, GSA will use this sales data to drive pricing decisions; therefore, GSA faces greater risk if the sales data is inaccurate or incomplete.

We are also concerned about the recurring problem of contractors providing unqualified labor on schedule contracts, resulting in overcharges to GSA's customer agencies. In particular, during FY 2015, we found 32 percent of audited services contractors provided labor that did not meet the contract's minimum qualification requirements. Contractors are responsible for billing in accordance with contract terms. Likewise, contractors are responsible for providing labor that meets contract-stipulated minimum education and experience qualifications to ensure the quality and timeliness of services performed on government projects. GSA faces the challenge of ensuring that contractors comply with contract terms so that customer agencies receive the level of services they are paying for.

Challenges Facing the Acquisition Workforce

Contracting officers are responsible for evaluating and processing new offers, modifications, and options to extend existing contracts, as well as performing general contract administration. GSA is adjusting its organizational structure to better support the adoption of category management across the federal government. Category management is a major federal initiative intended to enable federal government agencies to manage purchases more like a single enterprise, as opposed to individually. FAS plans to commit to the principles and vision of category management by reorganizing its acquisition workforce. Thus, not only will the acquisition workforce need to adjust the way they award and administer contracts, they will also need to adjust to new lines of reporting within FAS. While GSA works to navigate its acquisition workforce through these organizational changes, it continues to face challenges related to workload management and hiring, retaining, and developing qualified acquisition personnel.

Workload Management

Contracting officers are responsible for managing the workload of approximately 16,000 schedule contracts that generate over \$33 billion in annual sales. In FY 2015, each contracting officer administered, on average, 85 contracts.

In a FY 2007 report, we raised the issue of low and no sale schedule contracts and recommended that FAS adopt a structured approach to reducing the number of unused schedule contracts.³ Although FAS has made progress in cancelling low and no sales schedule contracts, a significant number remain. In FY 2015, approximately 30 percent of schedule contracts had no sales. In FY 2016, FAS spent about \$25 million administering information technology (IT) schedule reseller contracts with low or no sales. Administering schedule contracts with low or no sales negatively affects a contracting officer's time to evaluate substantive contract actions, such as award proposals and modifications, and hinders a contracting officer's ability to effectively manage their workload.⁴ Over time, these contracts have steadily shifted from products and services to full acquisition solutions, which are inherently more complicated acquisitions involving more technically and financially complex customer requirements.

Hiring, Retaining, and Developing Qualified Acquisition Personnel

FAS requires a robust and well-qualified acquisition workforce in order to award and administer increasingly complex acquisitions and successfully implement FAS's new major initiatives. However, over the past few years, we have identified some impediments to the successful hiring, retention, and development of the FAS acquisition workforce.

In FY 2015, we reported that contracting officers were not receiving specialized training in schedule acquisitions necessary to perform their jobs.⁵ The limited availability of schedule-related training puts the government at an increased risk that schedule contracts may be improperly awarded and/or administered. Accordingly, we recommended that FAS provide a specialized training program for its schedule contracting officers; however, as of June 2016, FAS had not fully developed this training. FAS officials stated the development, finalization, and implementation of the new training will take place based on the implementation of new pricing policies, procedures, and tools (e.g., the Formatted Product Tool and the Transactional Data Reporting rule).

Furthermore, in FY 2016, we reported that, although GSA has human capital plans for its acquisition workforce, FAS does not have a comprehensive human capital plan to address hiring, retention, and succession planning for its acquisition workforce.⁶ With

³ *Review of Multiple Award Schedule Program Contract Workload Management* (A060190/Q/6/P07004, July 31, 2007).

⁴ *IT Resellers Contracts Present Significant Challenges for GSA's Schedules Program* (A120026/Q/6/P16003, July 22, 2016).

⁵ *FAS Needs to Strengthen its Training and Warranting Programs for Contracting Officers* (A140008/Q/9/P15002, June 25, 2015).

⁶ *FAS Needs a Comprehensive Human Capital Plan for Its Contract Specialist Workforce* (A150033/Q/9/P16002, July 22, 2016).

30 percent of its acquisition workforce eligible to retire within the next 5 years, FAS should develop and implement a comprehensive human capital plan to recruit, hire, and retain the contracting staff necessary to fulfill its mission. Without such a plan, FAS may be hiring contracting staff without assessing hiring needs and costs, considering turnover rates, and preparing for upcoming retirements.

ISSUE: GSA faces challenges as it moves toward transactional data reporting.

GSA faces significant challenges in implementing the Transactional Data Reporting rule. In FY 2016, GSA published the final rule to institute transactional data reporting.⁷ Under the rule, GSA contract holders will be required to report to GSA prices paid by government customers for products and services delivered during the performance of their respective contracts. GSA views transactional data reporting as a catalyst to move GSA towards category management. GSA expects that this will bring about an increase in the efficiency and effectiveness surrounding key categories of federal procurement (e.g., IT, professional services, and security and protection), while reducing associated costs and redundancies.

The reporting requirement is available for immediate incorporation into GSA's governmentwide non-Multiple Award Schedule contracts. For Multiple Award Schedule (schedule) contracts, the requirement will be introduced in phases beginning with a pilot program for select products and services. In exchange for transactional data, GSA will forfeit its two contractual price protections – the requirement for a contractor to disclose its commercial sales practices and the mandatory price protections afforded by the Price Reductions Clause.⁸

GSA is effectively severing the link between its Schedules Program and the commercial market by eliminating these price protections and relying instead on transactional data, contract-level pricing data, and publically available commercial pricing information as the primary means of price analysis. These data sources have inherent limitations that may prevent the Schedules Program from meeting its objective of providing competitive, market-based pricing for customer agencies. Specifically, the transactional data and contract-level pricing data draw exclusively from government pricing information, while publicly available commercial pricing information may not provide the level of insight into contractors' commercial sales practices as previously required. Furthermore, although GSA may seek discounts, a contractor will not be required to reduce its GSA contract

⁷ GSA Acquisition Regulation (GSAR) Case 2013-G504.

⁸ FAS uses the Commercial Sales Practices disclosure to negotiate pricing on Federal Supply Schedule contracts. The Price Reductions Clause can be found at GSAR 552.238-75, *Price Reductions* (May 2004).

price when its commercial price decreases as previously required by the Price Reductions Clause.

To accomplish the shift to transactional data reporting, GSA must change its procedures for awarding and administering schedule contracts from those focusing on commercial comparability to procedures emphasizing data analytics. GSA must also ensure contracting personnel are appropriately trained on the new policies and methodologies so that they can effectively use transactional data for price reasonableness determinations.

Contracting officers will face challenges related to the usefulness of the data. For instance, GSA management officials have acknowledged the existence of a time delay until sufficient transactional data is available for making price comparisons. In addition, industry groups have expressed concern that the data will not accurately reflect differences in terms and conditions, which may adversely affect the ability of contracting officers to perform price determinations. GSA must also address whether and how the data will be used to evaluate pricing for the variety of task order types and pricing methodologies allowed under the Schedules Program. For example, GSA acknowledged that fixed price orders may not result in sufficiently detailed transactional data and has stated that “fixed price data will have limited value compared to data reported for other contract types.”⁹

The implementation of transactional data reporting also represents a significant change in operations that GSA must properly plan for in order to mitigate new risks, especially with the supporting IT infrastructure. In initiating transactional data reporting, GSA will rely on IT systems to receive, store, and analyze the transactional data submitted by contractors. As GSA implements the pilot program, it must protect the confidentiality, integrity, and availability of the transactional data reported. For example, supporting IT systems will receive and house participating contractors’ proprietary sales data. Accordingly, GSA must establish and maintain IT security controls to safeguard this sensitive data from unauthorized use or disclosure. In addition, GSA must develop procedures to verify the accuracy of the submitted data to ensure it is reliable for use in both price determination and category management.

The final rule states that the pilot program will be evaluated against performance metrics from at least 1 year of operation before it is expanded or transactional data reporting is made a permanent part of the Schedules Program. The final rule lists the

⁹ GSA’s response to The Coalition for Government Procurement, dated September 19, 2016. Issued by Jeff Koses, Senior Procurement Executive, Office of Acquisition Policy, and Tom Sharpe, FAS Commissioner, to Roger Waldron, President of The Coalition for Government Procurement.

metrics as changes in price, sales volume, small business participation, and the creation of smarter buying strategies. GSA must ensure the metrics evaluated measure the intended outcomes of this initiative. Furthermore, it is important that GSA's evaluation is thorough and transparent to ensure GSA makes the most effective decision in expanding, adjusting, or abandoning the transactional data reporting pilot.

ISSUE: *GSA continues to face challenges to meet the government's evolving needs for telecommunication and integrated technology infrastructure solutions.*

GSA's goal is to transition customer agencies to the next telecommunications contract over 3 years. Based on GSA's experience in transitioning agencies to new telecommunications contracts, reaching this goal will be challenging.

The transition to GSA's current telecommunications contracts, Networx Universal and Networx Enterprise (Networx), exceeded estimated timeframes by 33 months, incurred additional transition program costs of \$66.4 million, and caused the loss of approximately \$329 million in cost savings by continued use of the predecessor contracts. The delayed transition to Networx resulted from a complex acquisition process, project planning deficiencies, and a decline of technical expertise within customer agencies.

GSA must plan and monitor implementation efforts carefully to avoid similar issues with the next transition to the \$50 billion, 15-year Enterprise Infrastructure Solutions (EIS) contract. EIS is intended to enable customers to procure common telecommunications services and IT infrastructure such as voice, videoconferencing, cloud services, call and data centers, satellites, and wireless services. EIS will also consolidate the current Local Service Agreements by integrating the national and regional aspects of current offerings to reduce overlap.

Given the complexity and scope of the EIS contract, GSA solicited feedback from industry and the public on the draft request for proposal, which was released in February 2015. GSA had planned to issue the final request for proposal in July 2015; however, it received approximately 1,600 formal comments that were used to refine the document and delayed the issuance of the final request for proposal to October 2015. As a result, GSA changed its targeted award date from September 2016 to early 2017. GSA plans to transition customer agencies to EIS over 3 years, by 2020, instead of the 6 years it took to transition to Networx. GSA's shortened timeframe is ambitious despite the steps taken to improve the transition to EIS and better support customer agencies.

GSA has structured the transition to EIS into three phases: acquisition planning, acquisition decision, and transition execution. While in the acquisition planning phase, GSA established a transition working group, recommended a standard transition process, and provided customer education. GSA is also evaluating the offers received in response to the EIS request for proposal. GSA has completed the initial inventory of services to be transferred for customer agencies to verify for accuracy. This inventory identifies services that customer agencies must transition from expiring contracts and provides a consistent measure to monitor transition progress. GSA is using contractor support to assist customer agencies during transition planning and plans to hire consultants to assist in preparing statements of work and fair opportunity decisions during the acquisition decision phase. GSA also plans to extend the Networx contracts, originally set to expire in 2017, into 2020 to ease the EIS transition and ensure agencies have access to uninterrupted services.

Transitioning to EIS is a big task: the federal government is the largest customer for telecommunications services and over 200 federal entities use Networx. GSA is challenged with the responsibility of assisting these customer agencies to transition to EIS with uninterrupted service. Given the challenges with the prior transition, it is important that GSA ensures the transition meets milestone dates to capitalize on potential cost savings resulting from reduced acquisition costs and volume buying.

REAL PROPERTY OPERATIONS

GSA's Public Buildings Service (PBS) is the landlord for the federal civilian government, providing federal agencies with the real property, including offices, courthouses, and labs, needed to accomplish their missions. To meet these needs, PBS must manage its real property portfolio of leased and owned properties; operate and maintain these properties; acquire space through construction, purchase, and leasing as customers' needs arise; and dispose of properties that are no longer needed. PBS faces several challenges in fulfilling its mission to meet its customers' needs effectively, efficiently, and economically.

ISSUE: GSA's new construction program is a complex undertaking.

The 2016 Consolidated Appropriations Act provided PBS with an additional \$947,760,000 for nine new construction projects for the Federal Judiciary. PBS will face challenges in implementing this construction program, especially with developing project requirements and managing complex project delivery methods.

Developing Project Requirements

Currently, PBS intends to use the additional funds to build five new courthouses and renovate and add annexes to three existing courthouses. PBS also intends to use some of the funds for a feasibility study for an additional new courthouse. The majority of the projects have been on the Federal Judiciary Courthouse Project Priorities list for more than 15 years. The Judicial Conference of the United States designates the courthouse construction projects on the list annually based on the Judiciary's most urgent space needs. Given the extended period of time the selected projects have been on this list, PBS will need to assess each project to identify any changes to the project scope and ensure the Judiciary's needs are met.

In addition, the new courthouse projects must be completed in accordance with the current U.S. Courts Design Guide and PBS's *Facilities Standards for the Public Buildings Service*, which require courtroom sharing and high performance building systems, respectively. In some cases, these projects may stretch PBS's technical and project management personnel because project requirements may have to be completely redeveloped to meet the new requirements.

Managing Complex Project Delivery Methods

PBS intends to use Construction-Manager-as-Constructor, Design-Build, and Design-Build-Bridging project delivery methods for the new construction projects. Unlike other delivery methods, these methods allow the general contractor to participate during the project's design phase, with the goal of ensuring a more accurate construction budget and schedule. Although these methodologies have benefits, they can also be problematic.

In the Construction-Manager-as-Constructor delivery method, the contracts are awarded for preconstruction services, such as cost estimation and design review, with an option for construction at a competitively established Guaranteed Maximum Price. However, on many American Recovery and Reinvestment Act (Recovery Act) projects using this methodology, such as the modernizations of the Dr. A.H. McCoy, Robert Smith Vance, and George C. Young courthouses in the Southeast Sunbelt Region, PBS violated the Competition in Contracting Act because it did not compete the Guaranteed Maximum Price.¹⁰ Instead, PBS either established the Guaranteed Maximum Price or did not evaluate it during the contract procurement. In addition, the scopes of work for

¹⁰ *Southeast Sunbelt Region Construction Manager as Constructor Contracts: Audit of PBS's Major Construction and Modernization Projects Funded by the American Recovery and Reinvestment Act of 2009* (Report Number A090172/P/R/R12009, September 28, 2012).

many modernization projects were not sufficiently detailed prior to the award of the construction contract. As a result, PBS and its contractors had ongoing discussions about what was included in the original contract price and whether modifications were needed as project details became more specific.

For both Design-Build and Design-Build-Bridging methods, a single contract is awarded to a contractor for the project's design and construction. Under Design-Build, the contractor generally has responsibility for the majority of the design. Under Design-Build-Bridging, PBS provides the contractor with limited design drawings that the contractor is responsible for finalizing. The final designs in both cases are based on GSA's program of requirements consisting of performance criteria and prescriptive requirements. However, if the performance and prescriptive requirements are not explicitly defined at the onset of the project, PBS is likely to incur costly contract modifications. Such was the case with the Design-Build contract to modernize the New Custom House in Denver, Colorado. PBS awarded the base contract for a firm-fixed price of \$18 million and issued 85 contract modifications that increased the total contract value to over \$40 million. Further, without proper controls, a contractor may seek reimbursement for changes to a project that should actually be the contractor's responsibility as the project designer.

When using these complex delivery methods in the new construction program, GSA must ensure that it complies with federal regulations and policy and that it defines project requirements explicitly before contract award.

ISSUE: *GSA faces significant challenges from the risks related to large-scale exchanges of real property.*

GSA has faced constraints in funding for construction projects in recent years. Consequently, the Agency has actively explored the use of real property exchanges to meet its need for constructing new buildings and making major renovations to its existing real property inventory. The Federal Property and Administrative Services Act and Section 412 of the Consolidated Appropriations Act of 2005 authorize GSA to exchange property for new construction, existing property, and construction services on properties in GSA's inventory. Although these exchanges allow GSA to use the value of the exchanged property to complete capital construction projects, large-scale exchanges present significant risks to the Agency.

Real property exchanges have the potential to provide multiple benefits to GSA, including transferring underutilized properties out of GSA's inventory. Principal among these benefits is the ability to apply the value of the federal property being exchanged to

finance construction needs, rather than waiting for the funds to be made available through the appropriations process.

However, the complexities of exchange transactions create major challenges for the Agency. For example, exchange projects are structured so that a developer performs construction services before receiving the government's property as consideration, which may occur years later. Given this, the valuation of the project has to take into account not only the costs of construction and the current value of the property being exchanged, but also the additional costs related to the extended timeframe, including long-term financing, future uncertainties, and other risks that could affect the project. Additionally, since most exchanges do not receive line item funding, GSA may face funding shortages if the final value of the construction being performed, including change orders, exceeds the value of the government's property. Further, the risks on the projects are increased because GSA has not yet completed a large-scale exchange. GSA therefore lacks experience in addressing issues that may arise, such as the valuation of developer risk. As a result, GSA continues to face multiple risks including:

- Exchanges may not be the most cost-effective option for the government due to their complexities and extended timeframes. GSA faces difficulty in valuing properties that will not be exchanged until some point in the future. The federal government could potentially obtain a better deal for a new asset or construction services and potentially larger proceeds for a disposed federal property if it were to use traditional acquisition and disposal methods.
- GSA lacks transparency in using funds to supplement exchange transactions in instances of shortfalls. Since exchanges are not authorized through the budget process, typically no line item funding exists for such projects. While GSA policy allows funds to be used to supplement exchanges, the policy does not identify permissible sources of funding. Nor does it require congressional approval when the estimated supplemental funds will exceed the prospectus threshold, currently set at \$2.85 million. Given this, GSA may use funding sources inconsistently or inappropriately when awarding construction modifications or support contracts.
- Exchanges may not be the most effective use of GSA resources. The exchange process requires GSA to invest considerable resources, including both employee time and funding, in planning and negotiating proposed exchanges. However, in instances where the exchange is not completed, these resources are expended without benefiting GSA, its tenants, or the taxpayer.

These risks are exemplified in GSA's current exchange projects. For example, the complexity of these exchanges and their long lead times requires GSA to expend funding and staff resources to move the projects forward. As of FY 2016, GSA spent over \$9 million on contracts for eight exchange projects to obtain support services such as environmental site assessments, appraisals, and legal consultation. In addition to these contract costs, GSA incurs costs for staff, both employees and regional support contractors, who plan, manage, and run the exchange projects. GSA funds both the support contracts and staff resources through its Building Operations account.

Congress authorized GSA to spend \$2.27 billion in Buildings Operations funds in FY 2016. The Building Operations account is intended to cover the day-to-day operational expenses for GSA's federally owned and leased facilities, including utilities, security, and building repairs and alterations that are less than \$25,000. When GSA uses these limited funds for exchange activities, fewer funds are available for building repairs and alterations. Additionally, GSA officials advised us that since Building Operations funds are authorized through the annual budget process, no prospectus is required for the expenditure of such funds on exchange projects even when the prospectus threshold is exceeded. Although GSA sends quarterly reports to Congress summarizing its current exchanges, the reports do not include specifics on project costs or the funds spent in support of the exchanges. As a result, Congress may not realize the full cost of these exchange projects for funding and decision-making purposes.

GSA has spent approximately \$1.4 million on exchange projects that were cancelled or not pursued. These properties included the Auburn Federal Complex in Auburn, Washington; undeveloped land in Lakewood, Colorado; the State Street buildings in Chicago, Illinois; and the Federal Triangle South buildings in Washington, D.C. GSA cancelled the State Street and Federal Triangle South exchanges because the developers' proposals were withdrawn or deemed unacceptable because they did not meet the solicitation requirements. Based on lessons learned from the canceled projects, GSA decided not to pursue the Auburn and Lakewood exchanges.

Despite these setbacks, GSA is still pursuing large-scale property exchanges, including the Federal Bureau of Investigation's Headquarters consolidation and the John A. Volpe National Transportation Systems Center. We view these exchanges as high-risk projects. In addition to the typical construction project challenges of completing construction on time and within budget and scope, these major projects are subject to the additional challenges of completing an exchange. For example, GSA has significantly revised the financial structure of the Federal Bureau of Investigation's Headquarters consolidation project since the Phase I Request for Proposals was issued in December 2014. In particular, the value of the current headquarters (*i.e.*, the J.

Edgar Hoover building) is no longer the sole funding source for the new headquarters project; GSA and the Federal Bureau of Investigation received \$390 million in FY 2016 and have requested over \$1.4 billion in appropriated funds for FY 2017. These funding sources will allow GSA to make progress payments as the exchange partner performs construction on the new headquarters, reducing the exchange partner's risk. Conversely, the Volpe exchange project's current structure does not allow for progress payments. Instead, the exchange partner will receive the government's property only after construction of the new facility is complete. The Volpe project's anticipated timeline spans several years and construction is estimated for over 300,000 square feet of space, increasing the project's risk.

While pursuing these exchanges, GSA maintains that it is working to address the risks associated with exchange projects. It has created a Program Management Office to provide guidance to exchange project teams, including guidance for Section 412 authority exchanges. According to GSA, it is also reviewing lessons learned from projects that were unsuccessful. As a result, GSA is performing a more rigorous initial analysis of potential property exchanges and is making adjustments in how it establishes the value of its exchange properties. It is also developing exchange transaction arrangements intended to mitigate contractor risk.

ISSUE: *Safeguarding federal infrastructure and providing a secure work environment for federal employees and contractors.*

GSA plays a significant role in providing a safe, healthy, and secure environment for employees and visitors at over 9,000 owned and leased federal facilities nationwide. Under Presidential Policy Directive 21 on *Critical Infrastructure Security and Resilience*, government facilities were designated as a critical infrastructure sector and GSA and Department of Homeland Security were named as responsible agencies. In accordance with the directive, the Department of Homeland Security's Federal Protective Service is the primary agency responsible for providing law enforcement, physical security, and emergency response services to GSA tenant agencies, buildings, and facilities. Meanwhile, GSA is responsible for continuity of operations, providing governmentwide contracts for critical infrastructure systems, and coordination with the Federal Protective Service to ensure building occupant security.

Our reports have repeatedly pointed out that GSA's security clearance process for contractors needs improvement. One of our recent audits disclosed that contractor employees who had not received security clearances were allowed to work on a

construction project at a federal building.¹¹ Another audit we conducted of PBS procurements found limited evidence of coordination among the GSA Chief Security Office and PBS officials to ensure only suitable individuals could access federal buildings.¹² We have repeatedly recommended corrective actions be taken to ensure all contractor employees accessing GSA facilities have the proper security clearances prior to having site access. We have also recommended that background check information be shared with, and retained by, contract and project management staff.¹³

Additionally, we recently issued two evaluation reports that concluded that GSA-managed facilities are at an increased risk of unauthorized access. Unauthorized access to federal facilities increases the risk of a security event such as an active shooter, terrorist attack, theft of government property, or exposure of sensitive information. Specifically, we identified significant deficiencies in GSA's process for managing GSA issued Homeland Security Presidential Directive 12 Personal Identity Verification (HSPD-12 PIV) cards to contractors and for ensuring the completion of contractor employee background investigations. We also found deficiencies in GSA's tracking and maintenance of contractor employee background investigation data stored within GSA's Credential and Identity Management System.¹⁴ In addition, we found widespread use of unsecured, unregulated facility-specific building badges at GSA-managed facilities. GSA does not have adequate controls over these badges and cannot determine the extent of their associated security risks because it does not centrally monitor the management of the badges.¹⁵ In response to these reports, GSA has agreed to address vulnerabilities associated with building-specific facility access cards and PIV cards.

GSA management maintains that it is working to improve its building security operations. In particular, the Agency has been emphasizing the performance and implementation of Facility Security Assessments. We currently have an ongoing audit that is examining security risk assessments of GSA's buildings.

¹¹ *PBS is not Enforcing Contract Security Clearance Requirements on a Project at the Keating Federal Building* (Report Number A150120/P/2/R16002, March 17, 2016).

¹² *PBS NCR Potomac Service Center Violated Federal Regulations When Awarding and Administering Contracts* (Report Number A130112/P/R/R15004, March 27, 2015).

¹³ *Recovery Act Report-Contract Administration for Group 10 Review of PBS's Limited Scope and Small Construction Projects Funded by the American Recovery and Reinvestment Act of 2009* (Report Number A090184/P/R/R12008, June 13, 2012); *Implementation Review of Corrective Action Plan Contract Administration for Group 10 Recovery Act Limited Scope and Small Construction Projects Report Number A090184/P/R/R12008* (Assignment Number A130130, March 28, 2014); and *PBS NCR Potomac Service Center Violated Federal Regulations When Awarding and Administering Contracts* (Report Number A130112/P/R/R15004, March 27, 2015).

¹⁴ *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Management of Contractor HSPD-12 PIV Cards* (Report Number JE16-002, March 30, 2016).

¹⁵ *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Use of Facility Specific Building Badges* (Report Number JE16-003, March 30, 2016).

TECHNOLOGY TRANSFORMATION

ISSUE: *GSA faces major challenges in establishing and operating the new Technology Transformation Service.*

In May 2016, GSA established the Technology Transformation Service (TTS) which consolidated three existing GSA programs and initiatives:

- The Office of Citizen Services and Innovative Technologies, which assists agencies in the delivery of information and services to the public and also identifies, tests, and deploys innovative technologies for the government;
- 18F, which provides digital development and consulting services for government customers; and
- The Presidential Innovation Fellows program, which pairs private-sector technology specialists with top-level civil servants to bring innovation to the federal government.

In announcing the formation of the TTS, the GSA Administrator stated that it would provide a foundation for the government's digital transformation and will help agencies "build, buy, and share technology...to become more accessible, efficient, and effective." A GSA website states that "enabling this team to operate at the Service level provides the support, authorities, and assurances beyond what either team is receiving today, effectively supercharging their abilities to deliver on their mission of government wide transformation."

GSA faces numerous challenges in operating this new Service. For example, TTS was established without a dedicated fund for the operations of one of its major components, 18F. 18F uses the Acquisition Services Fund (ASF) under a Memorandum of Agreement with FAS that expires in June 2018. Under this agreement, 18F receives funding from the ASF to support its operations. However, the use of ASF funding is problematic. The FAS Commissioner, who by law is responsible for carrying out the functions related to the uses for which the ASF is authorized, has limited oversight into the use of the funds by 18F. This in turn may dilute accountability for the use of the ASF and impede effective decision making related to the Fund. In addition, the Memorandum of Agreement requires that 18F plan to achieve full cost recovery of both direct and indirect costs in order to use the ASF funds. However, 18F is currently struggling to recover the full costs of its operations.

Additionally, 18F has experienced a series of information security incidents including a breach that potentially exposed sensitive information. These incidents indicate that GSA's Chief Information Officer must exercise greater oversight of 18F operations to ensure compliance with the Federal Information Technology Acquisition Reform Act (FITARA).¹⁶

Finally, TTS faces significant challenges in human capital management. TTS uses term appointments – generally no more than 2 years – when hiring employees for 18F. This model assumes a high staff turnover. In addition, TTS has recently experienced the loss of key leadership. For instance, within two months of its creation, the TTS Commissioner and the Director of the Presidential Innovation Fellows program left GSA. More recently, the TTS Deputy Commissioner and Executive Director for 18F announced that he would step down. The staffing model and leadership turnover within TTS may pose a challenge to GSA's ability to effectively build the Service and create institutional knowledge.

GSA leadership must address these issues in order to ensure that TTS is able to achieve its mission.

FINANCIAL OPERATIONS

ISSUE: GSA continues to face challenges in the transition of its Financial Management Line of Business to the U.S. Department of Agriculture.

GSA's transition of its Financial Management Line of Business to the U.S. Department of Agriculture (Agriculture) remains a major undertaking for the Agency. On September 15, 2014, GSA first announced its plans to transfer its financial operations to Agriculture to achieve cost savings and improve performance. The initiative was prompted by Office of Management and Budget (OMB) Memorandum M-13-08, *Improving Financial Systems Through Shared Services*.

GSA began the migration of financial staff and systems to Agriculture in FY 2015. On March 22, 2015, GSA transferred 287 of its employees and its financial functions to Agriculture. The transfer of systems was split into two phases. Phase 1, which was completed on October 1, 2015, involved the transfer of numerous financial systems, including GSA's core accounting system, Pegasys. Phase 2 entails the transfer of several additional GSA IT systems to Agriculture.

¹⁶ 40 U.S.C. 11319(b)(1)(A)(ii) (2014)

However, GSA faces significant challenges with the Phase 2 transition. Initially, Phase 2 was planned to be completed on or before September 30, 2016, but the transfer has been delayed. According to GSA's Office of the Chief Financial Officer, the majority of the applications will be transferred to Agriculture in FY 2017. However, Phase 2 will not be complete until the first quarter of FY 2018 because GSA must upgrade the security of some support applications prior to completing the transfer to Agriculture.

Additionally, as part of its shared services offerings, Agriculture pledged a good faith effort to market GSA's existing financial management software – Momentum – to other customer agencies in order to operate it on a more cost-effective basis. Currently, GSA is the only Agriculture customer agency that uses Momentum. The Memorandum of Understanding with Agriculture provides that if Agriculture is unable to successfully obtain new customers for this software, GSA will pay the costs to transition to another financial management system. The costs for such a transition are expected to be significant. In the meantime, GSA continues to assist Agriculture with marketing the Momentum platform to other agencies.

GSA must ensure that it has an effective metric for tracking incremental costs associated with the transition. As some savings are dependent on the successful marketing and seamless transition of Momentum and supporting applications, GSA must understand the financial impact of Agriculture's efforts to market Momentum as well as the cost to upgrade the security of the support applications that do not meet Agriculture's standards. Finally, GSA should begin to lay out contingency plans in the event it is required to move to a new application for its financial management system. Such plans should include careful consideration of the costs associated with the system migration along with the potential impact of the migration on GSA's day-to-day financial operations and ability to produce accurate and reliable financial reports.

GSA has continued to work on different aspects of the transition and its implementation. For example, on March 30, 2016, GSA finalized its Service Level Agreement with Agriculture. The agreement documents the terms and conditions governing the ongoing services that will be delivered and the relationship between GSA and Agriculture. GSA and Agriculture also completed an additional interagency agreement that defines the detailed operating budget for Financial Management Line of Business services provided by Agriculture during the period of performance October 1, 2015, through September 30, 2016. GSA has also fully funded its interagency agreement with Agriculture for FY 2016 and plans to transfer the financial and administrative services of

its child-care subsidy program in September 2016.¹⁷ GSA must continue to work with Agriculture to ensure that the financial services meet the Agency's needs in the future.

ISSUE: GSA's internal controls over financial management and reporting continue to need improvement.

During GSA's FY 2015 Financial Statements Audit, the independent public accountant (IPA) identified significant deficiencies in internal control surrounding the Agency's: (1) financial management and reporting of leases and occupancy agreements (*i.e.*, agreements between GSA and other federal agencies for rental of space); (2) budgetary accounts and transactions; (3) financial management systems; and (4) Agency-wide or entity-level controls.

Controls over Leases and Occupancy Agreements

GSA continues to face significant deficiencies in the controls surrounding capital and operating leases, and recording of occupancy agreements. According to the IPA, if left uncorrected, these conditions present a risk that errors in GSA's accounting and reporting for its leases and occupancy agreements will not be prevented, or detected and corrected, by GSA management. This could result in a misstatement to GSA's financial statements.

Lease Classification

As of October 1, 2015, GSA maintains 7,171 leased federal assets and processes approximately \$6 billion in lease payments annually. Under current accounting standards, lessees are required to conduct an analysis to determine whether a lease should be classified as a capital or operating lease. For capital leases, lessees are required to treat the lease as though they own the property and report it on their balance sheet accordingly. For operating leases, lessees must record the lease payments as an operating expense. Accordingly, they are not required to report these expenses on their balance sheet.

The IPA found deficiencies surrounding GSA's classification analysis for its leases. Specifically, the IPA reported that regional personnel do not consistently adhere to existing policies and procedures to ensure the lease classification analysis is current and accurate. The IPA also found that the controls over the lease classification process were not effective to address financial reporting requirements.

¹⁷ The subsidy programs being transferred include those for GSA and its client agencies, including the U.S. Coast Guard, National Park Service, and U.S. Customs and Border Protection.

Occupancy Agreements

Occupancy agreements are agreements between GSA and a tenant agency for rental of GSA-owned or leased space. These agreements set forth the financial terms and conditions by which the tenant agency occupies the GSA-controlled space. GSA bills customers approximately \$10 billion annually from these agreements

In FY 2015, the IPA identified continued deficiencies in GSA's controls over accounting and reporting of occupancy agreements. Specifically, the IPA noted that GSA personnel did not obtain fully executed occupancy agreements or updated agreements when key terms such as rental rates and square footage were modified or the period of occupancy expired. In addition, the IPA found that GSA has not designed and implemented policies and procedures governing the use and documentation of occupancy agreements by regional personnel.

Without fully executed occupancy agreements documenting significant changes to the financial terms and conditions of the agreements, GSA may be unable to accurately report its rental agreements with tenant agencies. This, in turn, may lead to billing disagreements with tenant agencies and affect the reliability of GSA's financial reports.

Controls over Budgetary Accounts and Transactions

Budgetary accounts are a category of accounts used to record transactions related to receipts, obligations, and disbursements of budgetary authority (the authority provided by law to incur financial obligations that will result in outlays). The IPA reported the following deficiencies surrounding these accounts and transactions: (1) GSA's internal controls do not provide reasonable assurance that contract and financial information is effectively captured in its financial management system and properly reflected in the financial statements; (2) GSA relies on manual controls, such as resource-intensive reconciliations, to mitigate the risk of not capturing financial information for its contracts properly and timely into the financial system; and (3) GSA did not fully or consistently adhere to policies and procedures for obligating funds received through Reimbursable Work Authorizations – interagency agreements between GSA's PBS and other government entities for real property services.

The main factors contributing to the weaknesses in internal controls over budgetary accounts and transactions continues to be the lack of an electronic interface between GSA's financial and contract management systems and the lack of sufficient oversight of the contracting function. Without such an interface, GSA faces an increased risk of being unable to record its contracting actions in a timely manner in its financial management system. To mitigate this risk, GSA relies on significant manual processes

to record its contracting actions. However, due to the lack of oversight of the contracting function, these manual processes are susceptible to error, which can result in the provision of delayed or inaccurate financial information to decision makers.

In November 2015, GSA implemented the first phase of the PBS Electronic Acquisition System Integration to address this control deficiency, among other things. The integration was intended to seamlessly integrate PBS's business systems with GSA's financial system of record, called Pegasys. Interfacing GSA's business systems with Pegasys would substantially reduce the amount of manual data entry and thus facilitate the provision of more timely and accurate contract data to decision makers. However, GSA management has expressed concerns with this system's adoption as it continues to work on balancing the Electronic Acquisition System Integration deployment with the enhancements needed to address functionality gaps and users' growing needs.

General Controls over Financial Management Systems

In FY 2015, the IPA noted continued weaknesses in IT controls designed to protect GSA's financial management systems. Specifically, the IPA identified control deficiencies over access and configuration management controls.

Access Controls

Access controls are security features that regulate who can access systems, resources, and information. They are aimed at ensuring the confidentiality, integrity, and availability of the data residing in an information system. Access controls prevent unauthorized access, inhibit users from performing tasks not assigned to them, and log and monitor activity performed to detect any unauthorized or inappropriate activity.

The IPA identified weaknesses in GSA's controls over access to programs and data. These control weaknesses included: (1) inadequate or inconsistent initial authorization, recertification, and timely removal of inactive user accounts; (2) lack of segregation of duties; (3) ineffective controls over logical access (including password configuration settings); (4) partially implemented controls over the configuration, review, and access to the logs for the application, database, and operating systems; and (5) inconsistent implementation of controls over GSA contractor access. Without effective access controls, GSA faces a risk that the confidentiality, integrity, and availability of the data housed in its financial management systems may be compromised.

Configuration Management Controls

Configuration management controls are intended to prevent unauthorized fraudulent data or malicious code from entering into the application and/or database without

detection. Such an incident could compromise the confidentiality, integrity, and availability of the data residing on the information system.

The IPA identified weaknesses in GSA's controls over configuration management. These control weaknesses included: (1) database patches that were not reviewed, authorized, or tested prior to implementation into the production environment; (2) software changes that were developed and migrated into the production environment by the same personnel; (3) emergency changes that were not authorized prior to implementation into the production environment; and (4) lack of documentation regarding the Information System Security Officer's review of vulnerability scans.

As previously reported in the FY 2014 and FY 2015 IPA reports, one factor contributing to these control weaknesses is the continued challenge GSA faces to apply information relating to known weaknesses in one system to remediate similar weaknesses in other systems. Without effective configuration management controls, GSA may be unable to prevent and detect unauthorized changes to financial information and access to sensitive information.

Entity-Level Controls

Entity-level controls have a pervasive effect on an organization's internal control system and may pertain to multiple components. These may include controls related to the entity's risk assessment process, control environment, service organizations, management override, and monitoring. In its FY 2015 report, the IPA acknowledged that, while GSA initiated the implementation of corrective action plans to address pervasive internal control weaknesses, entity-level control deficiencies remain.

The IPA identified five common conditions that contribute to the entity-level control deficiencies: (1) policies and procedures related to financial reporting and accounting operations are not always finalized in a timely manner; (2) regional and operational personnel do not consistently share responsibilities for and are not adequately supervised on financial management matters including adhering to appropriate accounting policies and procedures; (3) certain financial system functionality limitations led to manually intensive and redundant procedures to process transactions, verify accuracy of data, and prepare the financial statements; (4) GSA did not perform and document comprehensive analyses over certain financial reporting aspects for the accounting functions transferred to Agriculture, its shared-service provider; and (5) GSA has established a number of manual compensating controls that do not operate at a sufficient level of precision.

As discussed in the IPA's reports for the past 4 years, GSA must continue to address weaknesses in its controls across all levels of the Agency. Entity-level controls must be effective to create and sustain an organizational structure that will ensure reliable financial reporting.

The IPA acknowledged progress made by GSA to correct internal control weaknesses during FY 2015. GSA has continued these remediation efforts during FY 2016. For instance, in its *FY 2017 Congressional Justification*, GSA reported that it has implemented an improved internal control framework to address challenges with the effectiveness of financial reporting controls. GSA also stated it was increasing senior leadership focus on internal controls across the organization and reorganizing the Office of Chief Financial Officer's regional financial services to promote greater operational efficiency and standardization. Additionally, GSA stated it was analyzing the findings of the Financial Statements Audit to identify the root causes of the internal control breakdowns that led to these findings.

INFORMATION TECHNOLOGY

ISSUE: Continued improvements are needed to protect sensitive information.

Protecting sensitive information is critical to an agency's mission, operations, and reputation. Without continuous monitoring of controls, sensitive information belonging to the agency, its employees, contractors, and customers remains at risk.

Several of our previous audits and evaluations reported on weaknesses in GSA's efforts to protect sensitive information in physical and electronic forms. For example, in FY 2015 we performed an audit of GSA's cloud computing environment after discovering personally identifiable information available to individuals without a valid need to know.¹⁸ A later evaluation found deficiencies in GSA's ability to track and maintain contractor employee background investigation data.¹⁹ Further, this evaluation uncovered deficiencies in GSA's processes for issuing, managing, and terminating HSPD-12 PIV cards. These deficiencies were in addition to an earlier inspection report that found physical control weaknesses in securing sensitive information and government-furnished personal property that is highly susceptible to theft.²⁰

¹⁸ *Personally Identifiable Information Unprotected in GSA's Cloud Computing Environment* (Report Number A140157/O/R/F15002, January 29, 2015).

¹⁹ *GSA Facilities at Risk: Security Vulnerabilities Found in GSA's Management of Contractor HSPD-12 PIV Cards* (Report Number JE16-002, March 30, 2016).

²⁰ *Security Vulnerabilities – Protecting Information and Property in the GSA Central Office Open Space* (Report Number JE15-001, October 16, 2014).

Other recent audit reports identified challenges with the Agency's breach response teams and their obligations under GSA Order CIO 9297.2B, *GSA Information Breach Notification Policy*. Specifically, GSA was unable to notify affected individuals within 30 days, as required by this policy, due to a series of breakdowns in its processes and procedures. As a result, some affected individuals still may not know that their personally identifiable information was breached. Without timely and effective notice of a breach, individuals cannot take appropriate steps to protect themselves against the possibility of identity theft, harassment, or embarrassment.

The Agency has taken action to identify and remediate instances of unprotected sensitive information. Further, GSA has implemented technical controls to reduce the risk that this information will be shared improperly. However, managing the persistent threats of intentional or unintentional sensitive information leaks remains a challenge. While GSA has updated its IT security, privacy, and insider threat policies, it must continue to assess the internal and external threat environment to prevent, detect, and effectively respond to incidents involving sensitive information. Additionally, GSA must improve its ability to notify individuals affected by breach incidents involving personally identifiable information. This will help the Agency respond to breaches in the future more efficiently and effectively.

ISSUE: *GSA is challenged with minimizing the risk of cyberattacks to federal building management and control systems.*

Building management and control systems are designed to monitor and control a building's operations through automation. These systems can include access devices, elevators, HVAC systems, and utilities. With the modernization of GSA federal facilities comes more reliance on building management and control systems and an increase in cybersecurity risk to these systems. Malicious software, such as ransomware, has an increased likelihood of being introduced into the IT environment by an attacker as these systems are more publicly accessible through the Internet and are no longer isolated from the outside world. Using ransomware, attackers can lock down systems and data until a ransom is paid for its release. For example, an attacker who has gained access to a building management and control system can:

- Block, delay, or inaccurately report system information;
- Execute unauthorized changes to equipment;
- Modify software or configuration settings; and/or
- Interfere with the normal operations of safety systems.

Such an attack could result in the loss of valuable data, harm to an organization's operations and finances, or physical harm to building occupants. For example, if an

attacker gained access to a building management and control system network using malicious software, the attacker could possibly control the building fire suppression system causing it not to operate when needed or as intended.

Recently, a security incident involving ransomware was reported at a GSA-managed federal building. The incident forced building management to operate the control systems manually until personnel could regain control. Operating in manual mode is resource intensive, time-consuming, and contrary to the purpose and goals of implementing automated systems to monitor and control a building's operations.

GSA must make cybersecurity a top priority in its building management and control system modernization efforts to ensure system standards, guidelines, and industry best practices are followed to the maximum extent possible.

IMPLEMENTING GSA'S ENTERPRISE RISK MANAGEMENT FRAMEWORK

ISSUE: *Implementation of Enterprise Risk Management is a Significant Undertaking*

GSA will be challenged to successfully implement Enterprise Risk Management (ERM) within the Agency. ERM is a process that is applied across an agency to identify and manage risk to provide reasonable assurance that:

- Strategic goals and objectives align with the agency's mission;
- Operations are efficient and effective;
- Reporting is reliable; and
- The agency is compliant with federal laws and regulations.

Under the updated OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, GSA, along with other federal agencies, is now required to implement an ERM framework in FY 2017.

OMB established four deliverables for agency implementation of ERM. First, each agency must establish its ERM implementation approach as soon as practicable but prior to the second deliverable. This approach may include considerations of risk appetite (amount of risk an organization is willing to accept) and risk tolerance (acceptable level of variance in performance), as well as an implementation timeline. Second, each agency must submit to OMB its initial risk profile by June 2, 2017. The risk profile must identify both opportunities and threats. Potential risk types that could be considered include compliance risk, cyber information security risk, financial risk,

operational risk, and reputational risk. This initial risk profile will be considered when developing the *President's Fiscal Year 2019 Budget*. Third, each agency must provide assurance in its annual financial report that it integrated ERM into its evaluation of internal controls. This integration is required by September 15, 2017. Finally, each agency must update its risk profile annually by June 3.

Although GSA may be able to meet the deliverable schedule, GSA will be challenged to implement ERM in a manner that ensures operations are efficient and effective, reporting is accurate, and that the Agency complies with federal laws and regulations. Historically, GSA has had difficulty ensuring that its internal controls are working to meet these objectives. Many of the issues identified in our reports and management challenges are the result of ineffective controls.

For example, we have often reported GSA's failure to comply with Federal Acquisition Regulation and procurement laws within both PBS and FAS. With respect to PBS, we found procurement errors in several projects funded through the Recovery Act, including multiple failures to meet competition requirements.²¹ We have also identified this as a persistent issue in PBS's regional offices; most recently in the Department of Homeland Security Headquarters project where PBS improperly expanded an operations and maintenance contract from a single building to the entire campus.²²

With respect to FAS, we have repeatedly identified instances in which contract files did not include all required documentation.²³ The existence of these issues impairs contracting staff's ability to effectively administer FAS's complex multi-year contracts and creates the potential for fraud, waste, and abuse. We have also highlighted FAS's non-compliance with Federal Acquisition Regulation in various reports detailing weaknesses in price analysis and negotiation practices for FAS's Multiple Award Schedule contracts.²⁴

²¹ See, e.g., *Recovery Act Report – Austin Courthouse Project Review of PBS's Major Construction and Modernization Projects Funded by the American Recovery and Reinvestment Act of 2009* (Report Number A090172/P/R/R10001, March 12, 2010); *Recovery Act Report – 50 UN Plaza Renovation Project Construction Contract Review of PBS's Major Construction and Modernization Projects Funded by the American Recovery and Reinvestment Act of 2009* (Report Number A090172/P/R/R10005, May 27, 2010); and *Recovery Act Report – Thurgood Marshall U.S. Courthouse Project Audit of PBS's Major Construction and Modernization Projects Funded by the American Recovery and Reinvestment Act of 2009* (Report Number A090172/P/R/R11012, August 19, 2011).

²² *Limited Scope Audit – Operations and Maintenance Services Contract at St. Elizabeths* (Report Number A150048/P/R/R16001, March 2, 2016).

²³ See, e.g., *FAS has not Effectively Digitized Federal Supply Schedules Contract Files* (Report Number A150029/Q/T/P16001, March 28, 2016).

²⁴ See, e.g., *Audit of Price Evaluations and Negotiations for Schedule 70 Contracts* (Report Number A150022/Q/T/P16005, September 28, 2016); and *Audit of FAS's Greater Southwest Acquisition Center – Schedule 84 Pricing and Negotiation* (Report Number A120124/Q/A/P14001, October 31, 2013).

In addition, we have reported on ineffective controls throughout other GSA components. For example, although GSA's Chief Information Officer has security responsibility for all GSA systems and applications, his office did not have oversight of 18F's applications and systems. This led to a data breach in which 18F's use of unauthorized computer applications exposed sensitive content, such as personally identifiable information and contractor proprietary information, to individuals who lacked the need to know such information.²⁵ In addition, over the past 2 years we found that GSA controls for documenting and reviewing purchase card transactions are not being performed consistently.²⁶

Finally, in their audit report on GSA's FY 2015 financial statements, the IPA detailed significant deficiencies in GSA's controls that prevented the Agency from preparing reliable financial reports.²⁷ The pervasive weaknesses in GSA's internal control environment have contributed to other significant deficiencies reported by the IPA. For instance, the IPA reported that GSA's controls were not effective at ensuring that all contract actions were accurately, timely, and completely captured in GSA's financial management system and properly reflected in the financial statements. This issue was first reported in FY 2004 and GSA has not yet been able to completely resolve the problem.

The internal control breakdowns described above illustrate the challenges that GSA faces in implementing ERM across the Agency. While the implementation of a risk assessment framework will allow GSA to meet a key component of internal control and comply with OMB Circular No. A-123, the Agency will need to improve upon its efforts to implement effective internal controls throughout the organization.

GSA'S GREENING INITIATIVE – SUSTAINABLE ENVIRONMENTAL STEWARDSHIP

GSA plays a major role in federal construction, building operations, procurement, and governmentwide policy. GSA was assigned additional responsibilities to lead change towards sustainability in these areas with the enactment of the Energy Independence and Security Act of 2007, the Recovery Act, and recent Executive Order 13693, *Planning for Federal Sustainability in the Next Decade*. Under these initiatives, GSA is required to increase energy efficiency, reduce greenhouse gas emissions, conserve

²⁵ *Management Alert Report: GSA Data Breach* (Report Number JE16-004, May 12, 2016).

²⁶ *GSA Office of Inspector General's Fiscal Year 2015 Risk Assessment of GSA's Charge Card Program* (Memorandum Number A160054-1, September 26, 2016); and *GSA Office of Inspector General's Fiscal Year 2014 Risk Assessment of GSA's Charge Card Program* (Memorandum Number A150037-3, September 30, 2015).

²⁷ *U.S. General Services Administration, Agency Financial Report, Fiscal Year 2015* (November 10, 2015).

water, reduce waste, determine optimal fleet inventory, and leverage federal purchasing power to promote environmentally responsible products.

ISSUE: GSA faces challenges achieving sustainability and environmental goals.

While GSA has demonstrated a commitment to sustainability, we have identified three challenges related to sustainability initiatives: (1) computing costs for Energy Savings Performance Contracts, (2) collecting quality data, and (3) diminishing sustainability returns on projects within the GSA inventory.

Energy Savings Performance Contracts Cost Computations

One of GSA's strategic goals is to provide savings to federal departments and agencies. As part of that goal, GSA plans to reduce energy usage and its associated cost. Executive Order 13423, *Strengthening Federal Environmental, Energy, and Transportation Management*, set a target of reducing energy usage per square foot by 30 percent from a 2003 baseline. The Agency stated that it met its 30 percent reduction target in FY 2015. One of the ways that GSA has achieved and intends to continue achieving energy savings is by using Energy Savings Performance Contracts.

Under an Energy Savings Performance Contract, GSA enters into a long-term contract with an energy company that arranges private financing and installs energy efficient improvements. GSA then makes payments to the energy company based on the realized energy savings, until the project has been paid off. The annual payments for the Energy Savings Performance Contract cannot exceed the value of the annual energy savings created by the installed energy-efficient improvements.

From September 2013 to April 2014, GSA awarded 14 Energy Savings Performance Contracts with an overall value of approximately \$201 million. Although Energy Savings Performance Contracts are designed to shift performance risks associated with energy-efficient improvements from GSA to the energy company, risks remain. In a FY 2016 audit, we determined that PBS may not be able to achieve energy savings goals because it did not take the proper steps in awarding task orders.²⁸ Specifically, we found that PBS risks paying for unrealized energy savings because it did not comply with requirements for witnessing baseline measurements and establishing fair and reasonable pricing. Essentially, since GSA's payments to an energy company are based on achieving energy savings, if the initial baseline energy costs or ongoing energy savings are not computed accurately, GSA could pay for energy savings that have not actually been realized.

²⁸ *PBS Energy Savings Performance Contract Awards May Not Meet Savings Goals* (Report Number A150009/P/5/R16003, September 27, 2016).

Collecting Data to Support Goals and Evaluate Results

GSA has expressed a commitment to be a government leader in meeting the Council on Environmental Quality's *Guiding Principles for Sustainable Buildings*, which define minimum sustainability standards for all federal buildings. As previously mentioned, GSA states it has reduced energy usage in its building inventory by over 30 percent from 2003 to 2015. However, GSA must ensure that data used to arrive at this conclusion is reliable. In a FY 2015 audit, we found that sustainability information stored in GSA systems is not always accurate or complete.²⁹ Poor data quality may render GSA unable to substantiate its claims relative to sustainability goals. Further, without accurate and reliable sustainability data, GSA cannot ensure that sustainability goals and the directives of Executive Order 13693, *Planning for Federal Sustainability in the Next Decade*, are being met. In response to the audit recommendations, GSA is implementing corrective actions to validate system data and strengthen policies to require timely system data updates. We are monitoring GSA's progress as part of an ongoing audit of GSA's sustainability results.

Diminishing Returns on Sustainability Investments

GSA is experiencing diminishing returns on investments as it continues to improve energy efficiency throughout its building inventory. Many of the quick return energy efficiency improvements throughout the building inventory have been made, such as changes to lighting fixtures, installation of occupancy-based controls, heating, ventilation, and air conditioning upgrades, and programmable thermostats. In the future, energy efficient investments such as upgrades to boilers and chillers for heating and cooling; window, door and rooftop replacements; and modified ductwork, are likely to cost more and have longer payback periods. Capturing the deeper energy efficiency savings often requires more in-depth studies to identify, characterize, and quantify the net benefits. GSA must verify that projects with longer payback periods are cost effective while striving to meet future reduction targets.

IMPLEMENTING GSA'S MOBILE WORKFORCE STRATEGY

ISSUE: GSA continues to face challenges with its mobile workforce strategy.

In support of OMB's *Reduce the Footprint* policy, GSA has a stated goal to serve as a model for the federal government by reducing its own footprint and implementing a

²⁹ *Incomplete, Outdated, and Unverified Recovery Act Sustainability Data May Affect PBS Reporting and Decision-Making* (Report Number A130128/P/R/R15005, March 31, 2015).

mobile workforce strategy. GSA policy established a goal of 136 usable square feet per person for all new projects. To accomplish this goal, GSA is implementing a mobile workforce strategy that includes a combination of desk sharing, teleworking, and virtual employees. The mobile workforce strategy is expected to achieve benefits such as reduced real property costs and carbon footprint, and improved work-life balance for GSA employees.

However, the costs of implementing this strategy should not be underestimated. Typically, GSA should realize cost savings if the strategy is used during a planned renovation or relocation. However, GSA may incur increased costs if the strategy is not implemented early enough in the planning stages. For example, in the Mid-Atlantic Region, the relocation of the Regional Office Building was delayed because GSA implemented the mobile workforce strategy late in the design process. As a result, GSA paid more money to redesign the new space and extend the lease at the existing space. In addition, as GSA expands the mobile workforce strategy beyond renovations and relocations, it needs to be mindful of other costs such as those associated with backfilling vacant space. GSA should perform a financial analysis before funds are spent to assess whether such costs outweigh any expected benefits.

The mobile workforce strategy is also changing the way offices function, with GSA employees transitioning from teleworking for a portion of the workweek to working in virtual offices. A virtual office is a workplace in which employees work cooperatively from different locations using a computer network, instead of a single building where workers are housed. A FY 2015 audit revealed that GSA did not know the number of virtual employees it had and some virtual employees were being paid too much because their official duty stations were designated incorrectly in GSA's information systems.³⁰ Increasing telework and working in virtual offices can stifle collaboration, as physical interaction with colleagues is limited. In addition, it can impair the effectiveness of managers who are also transitioning to supervising employees in the virtual environment.

Further, employees' ability to telework efficiently and effectively may be adversely affected by limited reliability and availability of digital documentation for many of GSA's contracts and the need to ensure the security of documentation that is taken offsite by teleworking and virtual employees. GSA is continuing to digitize records and has explored other means to replace its hardcopy documents and files. However, we found that FAS's electronic contract files are missing key contract documentation and are not

³⁰ *GSA's Program for Managing Virtual Employees and Teleworkers Needs Improvement* (Report Number A130019/C/6/F15001, January 16, 2015).

organized in a consistent and logical manner.³¹ These problems have impaired FAS's ability to effectively and efficiently administer its schedule contracts and comply with federal acquisition regulation documentation requirements.

Finally, GSA's IT support and capabilities are critical to any successful transition to a virtual workplace. Even though the Agency has been implementing a wide range of collaborative and mobile tools, its systems must be capable of interacting with, and being compatible with, all computing platforms, systems continuity, and ever-changing security requirements.

³¹ *FAS has not Effectively Digitized Federal Supply Schedules Contract Files* (Report Number A150029/Q/T/P16001, March 28, 2016).



The Administrator

November 2, 2016

MEMORANDUM FOR CAROL F. OCHOA
INSPECTOR GENERAL (J)

FROM: DENISE TURNER ROTH
ADMINISTRATOR (A) *Denise T. Roth*

SUBJECT: GSA's Major Management Challenges, Fiscal Year 2017

Thank you for providing me the opportunity to review your office's assessment of the major management challenges currently facing the U.S. General Services Administration (GSA) and our progress in addressing them.

GSA acknowledges these challenges and is implementing a broad range of measures to address them, including modernizing the Multiple Award Schedule (MAS) Program, improving the safeguarding of sensitive information, and ensuring the Technology Transformation Service (TTS) is best positioned to help agencies build, buy, and share technology that allows them to better serve the public.

Please find the attached comments that provide information and clarification pertaining to the actions above.

We look forward to continuing to work with the Office of the Inspector General (OIG) to promote greater Government effectiveness and efficiency.

Attachment

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GSA RESPONSES TO THE OFFICE OF INSPECTOR GENERAL'S MANAGEMENT CHALLENGES FOR FY 2016 (UNAUDITED)

Summary

GSA is committed to providing the highest level of service to both the American public and our partners throughout the federal government. As part of that commitment, the agency continuously looks to improve our services and strengthen our internal management systems.

We welcome and appreciate the comments from the Office of the Inspector General (OIG) and understand this feedback assists GSA with the effective management of the agency. As identified in the report, GSA has already taken many actions to address the challenges identified in the OIG Assessment of GSA's Major Management Challenges.

ISSUE: GSA continues to face challenges within the GSA Schedules Program.

AGENCY ACTION:

Implementation of New Pricing Initiatives Presents Contract Evaluation and Administration Challenges for Acquisition Personnel

GSA remains committed to ensuring that the Multiple Award Schedule (MAS) Program delivers the best value in Government acquisition. Feedback from stakeholders gathered through the MAS Advisory Panel, the OMB National Dialogue, our own acquisition workforce and other forums made clear that there were opportunities for GSA to modernize the MAS Program to reduce price variability at the contract level, assist our customers to make better buying decisions at the order level, and reduce burden for our industry partners.

GSA recognizes that these improvements represent change that must be managed and monitored in order to achieve the stated goals. GSA has augmented policy and training for the acquisition workforce and Schedule contractors to help ensure success. In FY16, GSA issued policy to the workforce on how to evaluate pricing under the pilot Schedules affected by Formatted Product Tool (FPT) and the Transactional Data Rule (TDR) initiatives. In addition, FAS provided in-person training to all of the Acquisition Centers responsible for implementing the pilot. The training has also been supplemented with open "office hours" to provide additional opportunities for the acquisition workforce to ask questions. In FY17, FAS will continue its education campaign with the roll-out of an in-depth TDR price analysis course to the acquisition workforce.

Contractor Compliance

GSA's Contractor Assessment Program exists to ensure that MAS contractors understand and comply with the Terms and Conditions of their Schedule contracts. As pointed out in a recent Inspector General Audit, the Program provides value in doing so. While GSA continues to improve in identifying and addressing contract compliance issues, we are taking a number of steps to bolster the Program this year. The Industrial Operations Analyst Training Manual is being updated to include a risk-based sampling methodology to improve the consistency of report results. Narratives to accompany any labor qualifications findings will be incorporated into reports to ensure that Contracting Officers have the necessary information to take contractual action. Finally, a formal, national training curriculum for experienced Industrial Operations Analysts is being established.

Challenges Facing the Acquisition Workforce

Workload Management

GSA is continuing to respond to the challenge of contract workload by providing our acquisition workforce with improved tools and streamlined business processes to help them award and administer contracts with greater efficiency and higher quality. In addition, GSA is looking across the Program for opportunities to combine solicitations, as evidenced by the creation of the single Professional Services Schedule, and reduce the number of low volume Special Item Numbers (SINs).

Hiring, Retaining, and Developing Qualified Acquisition Personnel

A GSA human capital strategy for the acquisition workforce is critical. The FAS Human Capital Strategic Plan will be finalized in the first quarter of FY17. The plan will pay special attention to the acquisition workforce since they are a Mission Critical Occupation for FAS and constitute a majority of the total workforce. A comprehensive human capital plan for GSA's acquisition workforce extends beyond FAS to the entire GSA acquisition workforce, and as such, FAS will work closely with the Office of Government-Wide Policy and the Office of Human Resource Management to finalize its plan.

ISSUE: GSA faces challenges as it moves toward transactional data reporting.

AGENCY ACTION:

GSA already collects transactional data through some of its contracts and has found it instrumental for improving pricing and increasing transparency. Accordingly, GSA will now test these principles on a broader base of its contracting programs. This move supports the government's shift towards category management by allowing the government to centrally analyze what the government buys and how much it pays, and thereby identify the most

efficient solutions, channels, and sources to meet its mission critical needs.

GSA acknowledges that transactional data (also known as prices paid data) will be reported over time and that these data will be exponentially more valuable to government buyers as the dataset grows. GSA recognizes that circumstances at the order-level (including orders placed under blanket purchase agreements (BPAs)), such as materially different terms, volume, and market and economic factors, may result in a Schedule vendor providing a discount from its Schedule contract pricing. As such, GSA understands a distinction must be made between Schedule contract-level prices and prices paid at the order-level. To aid its Schedule COs, GSA has created internal policy that differentiates between the two, and is thoroughly training its acquisition workforce on the distinctions. GSA created specific training on evaluating and managing Schedule contracts under the TDR pilot. Further, GSA will conduct quality reviews to ensure that contracts and their incorporated pricing are in accordance with all applicable regulations.

As with all procurement sensitive data collected and stored by GSA, GSA IT will store, manage and share TDR elements in accordance with prevailing Federal Information Security Management Act (FISMA) regulations and requirements. GSA already collects and manages sets of reported data elements on contract vehicles including but not limited to, office supplies under Strategic Sourcing, Commercial Satellite Services and complex professional Services under the One Acquisition Solution for Integrated Services (OASIS) vehicle. GSA is committed to building on the best practices for storing and sharing data already successfully in place.

ISSUE: GSA continues to face challenges with the government's evolving needs for telecommunication and integrated technology infrastructure solutions.

AGENCY ACTION:

GSA acknowledges the risks associated with awarding the Enterprise Infrastructure Solutions (EIS) contract and assisting customer agencies with transition. GSA is taking several steps to proactively manage these risks. The agency is implementing a transition strategy that capitalizes on lessons learned from the previous transition, as outlined in the December 2013 Government Accountability Office (GAO) audit report. The key elements of the strategy include (1) involvement of the customer Agency's senior employees and key functional areas, (2) involvement of the Federal CIO, OMB desk officers and budget leads; (3) development of Agency Transition Plans, (4) early and effective support from GSA to Agencies, (5) implementation of a phased, orderly approach, and (6) ensuring transparency through meaningful reporting including transition progress measured through OMB's PortfolioStat Process.

After the October 16, 2015, issuance of the EIS Request for Proposals (RFP), GSA established a Transition Coordination Center, which is a full-time dedicated team for planning and managing the government-wide transition. Initial EIS proposals were received February 22, 2016. GSA negotiated contract extensions for Networx, WITS3, and 65 regional Local Support Contracts to ensure expiration dates (March and May of 2020) coincide with the transition timeline. GSA worked with existing suppliers to validate the inventory of services to transition, thereby relieving customers of this labor-intensive activity. GSA developed training tools and resources to assist with transition and ordering on the EIS contracts, including (1) EIS and Transition websites, (2) transition inventory database, (3) EIS Fundamentals training, (4) Solicitation/SOW Assist Tool, (5) Transition Handbook, and (6) Transition Inventory Training and User Guide. All but two agencies have identified their transition leadership team consisting of an Agency Transition Sponsor to serve as project champion for the transition, a Lead Transition Manager to develop the agency's transition project plan, and a Transition Ordering Contracting Officer.

Finally, in FY 2016, GSA leadership continued its executive-level customer outreach by meeting with Agency Chief Information Officers and convening quarterly meetings of the interagency Infrastructure Advisory Group (IAG).

In FY 2017, GSA will provide tailored support to each agency appropriate to its transition approach, especially for the supplier selection, or "Fair Opportunity" process (see FAR Subpart 16.505). While GSA will support customers as they transition, agencies are ultimately responsible for moving their services to the new solution. To that end, GSA's Network Services, their consultants, and Acquisition Operations have worked with multiple large and medium-size agencies individually and in groups to address questions, identify best practices, and share lessons learned. In FY 2017 GSA will continue to coordinate planning and implementation and discuss transition initiatives with the interagency IAG and OMB. To ensure transparency and measure progress, GSA has proposed major transition milestones which will be reported to OMB. Critical milestones include (1) Validate transition inventory, (2) Deliver Agency Transition Plans, (3) Award EIS Contracts, (4) Complete all Fair Opportunity Decisions and Issue Task Orders for Transitioning Services, and (4) Transition Services off Expiring Contracts.

GSA is also moving to a common platform to replace the regional support system (TOPS) and the Networx support system (EMORRIS) with a single common platform to provide the Government – including both GSA and customer agencies – modern telecommunications expense management capabilities in order to lower the cost of ordering, managing inventory, and billing. The planned system architecture is an essential component of the success of the transition to EIS. Through systems consolidation, standardization, and improved automation, the Network Services Future Systems (NSFS) effort will be designed to reduce the cost and complexity of these telecommunications programs. Development of the two major NSFS components, GSA Conexus and the Network Hosting Center (NHC) is on

track. GSA Conexus is currently in Beta testing and planned to “Go Live” prior to EIS award early next calendar year. The NHC is undergoing FISMA security evaluation and move to a cloud environment, which will be complete in the 2nd quarter of FY 2017.

ISSUE: GSA's new construction program is a complex undertaking.

AGENCY ACTION:

Developing Project Requirements

Public Buildings Service (PBS) held 10 individual meetings with key stakeholders for each project between February and April 2016. In attendance were the Administrative Office of the U.S. Courts, U.S. Marshals Service, and U.S. Attorney to confirm project requirements for scope, schedule and budget. Based on those meetings the budget and scope were set and prospectuses developed and submitted to Congress for approval.

Program Risk Management - 1) The National Project Resources Board matched team qualifications to each project. 2) A Courthouse Program Dashboard was developed as a communication tool to manage scope/schedule/budget. 3) The Courthouse Program Partnering session resulted in a collective agreement to institute an industry-recognized risk management tool. 4) A national program management team provides program oversight and ensures that agreed-upon actions are completed.

Managing Complex Delivery Methods

Since 1994, PBS has utilized a variety of delivery methods that are considered for this program. Our analysis of the use of these has consistently shown that delivery methods such as Construction Manager as Constructor and Design Build provide taxpayer savings over Design-Bid-Build in both total project cost and in litigation. Our analysis covers approximately 125 projects with a total cost of \$7 Billion.

The Office of Design and Construction, the Office of Acquisition Management, and the Office of General Counsel jointly developed policy for Construction Manager as Constructor that was issued on February 8, 2011. This policy addressed items that resulted from the Recovery Act audit findings such as those cited for the McCoy, Vance, and Young Recovery Act projects. The PBS Procurement Instructional Bulletin 11-03, PBS Internal Controls for Construction Manager as Constructor Acquisitions, was also issued in 2011. All project managers and contracting officers for capital projects were trained on the new policy. Employees working on the new courthouse program for projects that will use the Construction Manager as Constructor delivery method are being trained and recertified on the use of the policy. PBS also issued a new chapter for the Design Excellence Policies and Procedures to address the use of the Design Build delivery method. The new chapter incorporates private sector best practices. A memorandum was issued on February 8, 2016 announcing the new chapter. Training was provided on the use of the chapter. PBS is currently updating templates for standard scopes of work for Architect Engineer, Construction Manager as Agents, Construction Manager as Constructor, Design Build, and Commissioning firms to support the ongoing delivery of the capital program.

ISSUE: GSA faces significant challenges from the Risks related to Large-Scale Exchanges of Real Property.

AGENCY ACTION:

GSA acknowledges the risks and challenges associated with pursuing large-scale exchange projects. GSA has developed and began implementing mitigation strategies to avoid and lower the impact of these risks.

PBS Policy 4065.1, Procedural Guidance for Section 412 Exchanges for In-Kind Consideration, requires that potential exchange projects are supported

by a business case analysis that is approved by the GSA Administrator and PBS Commissioner. This guidance strengthened internal controls associated with exchanges, added more structure to the process, and enabled PBS to learn from its recent experiences with exchange projects. The business case includes both net present value and highest and best use analyses, which are used to determine if the proposed exchange provides the most economically-viable housing solution for the Government. GSA has also extended the scope of this guidance to exchanges contemplated using other authorities available to the Administrator.

Given GSA's recent experiences with proposed exchanges such as Federal Triangle South and FBI Headquarters, GSA developed a discounted cash flow analysis to further refine value expectations for the property to be exchanged, beyond what would typically be provided from a market value appraisal. GSA uses this discounted cash flow analysis to determine the value of the exchange parcel in the context of the proposed transaction, rather than in the context of a sale for cash. GSA develops the requirements for the in-kind consideration to be as close in value as practical to the value derived via the discounted cash flow analysis.

As part of the procurement process for exchange projects, GSA negotiates the specific details of the proposed transaction, including the value of the exchange parcel and the estimated cost of providing the in-kind consideration. GSA will not enter into any contractual agreements that expose the agency to an Anti-deficiency Act violation, and GSA will ensure that all funds expended on exchange projects are obligated in full compliance with the agency's policies and Federal law.

GSA recognizes and understands the inherent risks associated with large-scale real property exchanges, and has taken steps to reduce the impact of these risks. GSA will only pursue exchange projects that are financially viable, meet the needs of agency customers and stakeholders, and provide best value to the taxpayer.

ISSUE: Safeguarding federal infrastructure and providing a secure work environment for federal employees and contractors.

AGENCY ACTION:

Over the past year GSA has made improvements to securing Federal facilities by issuing new credentialing, escorting and access control guidance. GSA maintains the integrity of authorized access to its facilities by issuing policy with agency-wide roles and responsibilities and ensuring the effective tracking and collection of Personal Identity Verification (PIV) Cards from contractors. GSA validates and certifies all active contractor data; and monitors contractor data, validation and information internally. Further, GSA collects inactive contractor data to protect facilities from unlawful contractor entry. When an unfit/unfavorable contractor determination is identified, GSA removes the contractor from the contract and the PIV Card is returned and destroyed. GSA tracks the collection and destruction of PIV Cards and provides card collection and destruction of PIV data agency-wide on a quarterly basis.

GSA is issuing a directive that addresses the oversight and termination process of GSA issued Facility Access Cards (FAC) in GSA-controlled space. This outlines a phased approach to eliminate the use of FACs while providing alternate access controls and processes. The Office of Mission Assurance also created a contractor report for those that are in 'active' status but still waiting on a final fitness determination, as some final background investigations may take more than a year to be completed by OPM.

ISSUE: GSA faces major challenges in establishing and operating the Technology Transformation Service.

AGENCY ACTION:

The Technology Transformation Service (TTS) was established in 2016 to improve the public's experience with the government by helping agencies build, buy, and share technology that allows them to better serve the public.

The challenges involved with establishing and operating the new service for GSA are similar to issues other agencies and businesses face when expanding and diversifying their services.

To ensure smart, sustainable growth, we continue to refine TTS business operations. We have taken significant steps to strengthen our efforts towards full cost recovery in 18F. We instituted an escalated review for new hires. We also created dashboards that allow for greater real-time management of financial performance and staff utilization. The Administrator reviews our performance at least quarterly to ensure progress. We are also putting in place greater controls over internal work and improving our allocation of staff to projects. Finally, as part of the annual budget process, we worked with the OCFO to analyze our recent experience and to develop a detailed financial plan to achieve full cost recovery by FY 2019.

To meet our mission and ensure TTS is current with the latest technology trends, the Office of 18F continues to rely heavily on term appointments. Short, two to four year appointments benefit the culture and operations of 18F in two ways: first, by allowing a constant, iterative approach to staffing needs based on customer demand; and second, by helping ensure that skills and methodologies do not get stale in an industry where change is constant.

In addition, we have created an Office of Operations within TTS to standardize and centralize shared functions throughout the organization. We have consolidated efforts to improve compliance with training, travel, and other GSA policies. We have created performance metrics and commitments that are tracked quarterly, shared widely, and drive

toward long-term goals for the organization. TTS is working with the Federal Acquisition Service (FAS) to strengthen and refine a governance structure when the ASF is being used. We have developed a customer engagement strategy with FAS to ensure GSA can deliver on technology efforts regardless of the client entry point. We've also answered the call from industry and other external stakeholders to improve our communication and transparency.

Finally, in the past year, GSA has taken significant steps to strengthen internal controls in the Technology Transformation Service. We brought in an independent third-party to review the Office of 18F's financial processes and controls, which has led to many operational improvements and efficiencies. We have instituted procedural and technical controls around interagency agreements, including not only review of agreements by the OCFO and General Counsel but also amending our timekeeping system to detect any work being done outside the period of performance or without signed agreements. We have conducted a reconciliation of past interagency agreements to ensure accurate billing, and we have transitioned to monthly customer billing and expense accruals to identify any errors in a more timely fashion. We have also standardized the relationship between TTS and the Office of the Chief Information Officer (CIO) to review all internal technology projects to enhance information security and ensure compliance with the Federal Information Technology Acquisition Reform Act (FITARA). In addition, the CFO is in the process of establishing dedicated resources to support TTS, which will help strengthen financial operations even further.

ISSUE: GSA continues to face challenges in the transition of its Financial Management Line of Business to the U.S. Department of Agriculture.

AGENCY ACTION:

GSA recognizes that there are short-term challenges and complexities in realizing the

benefits of moving its Financial Management Line of Business (FMLoB) to USDA. GSA transferred our core financial system by October 1, 2015 and planned the transfer of ancillary applications to USDA in Phase II. Due to USDA's plan to move their infrastructure to the cloud midway through FY 2016, GSA and USDA decided to change the approach in order to avoid duplicative movement of GSA's supporting applications - once to USDA and then again to the USDA cloud. GSA has instead undertaken a system rationalization program that will identify functionality to be included in future release of the Momentum solution, allowing retirement of certain ancillary systems. The security posture of applications will be upgraded as needed as part of this effort.

USDA has been marketing its shared services offerings to other agencies in conjunction with the government-wide shared services initiatives. In October 2016, USDA announced an agreement with the Veteran's Administration to identify whether USDA's shared services offering based on the Momentum solution will meet VA's requirements. USDA expects a decision on whether to proceed in fourth quarter of FY2017. GSA will continue our focus on successful implementation of an IT strategy that reduces operational costs and improves performance. Should this plan and USDA's customer base expansion not be successful, then GSA may consider migration to a new financial shared services provider.

ISSUE: GSA's internal controls over financial management and reporting continue to need improvement.

Controls over Leases and Occupancy Agreements

AGENCY ACTION:

GSA implemented corrective actions to improve internal controls over financial management and reporting, including strengthened controls over

leases and occupancy agreements (OAs). While further improvements are expected, during FY 2016 GSA implemented monitoring activities over budgetary scoring and improved the methodology to identify leases requiring further classification analysis.

Additionally, GSA implemented procedures to ensure adherence to pricing policy, strengthened efforts to identify and properly record lease accruals and improved controls over rent adjustments and to ensure a consistent national procedures for data entry of lease step rents in Real Estate Across the United States (REXUS).

GSA continues to reduce long-term real estate costs, and has made a significant effort to improve upfront planning as well as minimize holdovers and lease extensions. PBS rolled out the Automated Advanced Acquisition Program (AAAP), a nationwide program that allows building owners the opportunity to electronically offer building space for lease. Finally, PBS created a national lease center that will examine national leasing business practices and move toward standardization and process improvement.

Controls over Budgetary Accounts and Transactions

AGENCY ACTION:

The Public Buildings Service implemented a new contract writing system, Electronic Acquisition System Integration (EASi) in November 2015. EASi interfaces directly with GSA's accounting system and represents substantial progress by allowing real time recording of contractual actions in the accounting system for the majority of these actions. As a result of the EASi implementation, GSA has successfully interfaced over 80,000 transactions. As with any new system and process, the migration of data between the two systems has proved challenging. In response, GSA implemented a robust set of internal controls to monitor contract activity

awarded in EASi and established procedures for vendors to resolve billing issues.

General Controls over Financial Management Systems

AGENCY ACTION:

GSA agrees that there are issues related to access and configuration management controls for the Server, OS and Database environments for some of our Financial Management applications. GSA and USDA will continue to work together to improve and streamline these processes, which must be carefully facilitated across multiple responsible groups. The application, infrastructure, and security teams supporting these systems have already implemented new processes to address these issues including an improved process to recertify standard privileged users' accounts and an approved change workflow process for patching.

Entity-Level Controls (ELC)

AGENCY ACTION:

GSA made significant strides in documenting our ELC in FY 2016 by mapping the activities related to multiple components of our internal control system to align with GAO requirements. As a result, GSA eliminated parts of prior audit findings. GSA has targeted specific policies in FY 2017 to reduce ELC deficiencies by correcting the root causes in corrective action plans for remaining audit findings.

In order to improve the consistency and efficiency of personnel, the February 2016 reorganization consolidated staff into zones to streamline financial services, standardize and improve processes, and enhance staff specialization.

With respect to manually intensive and redundant procedures, please see the previous response on EASi.

This year, GSA conducted extensive research to document the inventory of reconciliation activities

being performed on internal financial information as well as by our shared service provider, USDA. GSA reviewed and updated standard operating procedures, roles and responsibilities for the transferred financial management activities, as well as identifying key internal controls and testing financial transactions. As a result, OCFO has developed a testing plan in FY 2017 to ensure reconciliations are timely, accurate and reliable.

GSA uses manual compensating controls when automation is not available. While not as effective or efficient as automation, they provide a level of assurance over financial management activities while other options, including enhancing automation, are researched and developed.

ISSUE: Continued improvements are needed to protect sensitive information.

AGENCY ACTION:

GSA IT has implemented a robust Google drive monitoring system using CloudLock. It monitors, alerts, and blocks personally identifiable information being shared depending on the rule that has been triggered. This has greatly improved GSA's ability to control the release of sensitive information in the cloud.

Protecting sensitive information is of paramount importance. In addition, safeguarding sensitive information is a critical element in the credentialing management program. GSA has enhanced agency-wide roles and responsibilities regarding the issuance, management, and termination of HSPD-12 PIV cards. This process is supported by the GSA Credential and Identity Management System (GCIMS), a robust data system used to track and maintain contractor background investigation data. The data system has been expanded to validate and certify all contractor data. The system delivers that active contractor information to internal organizations for contractor monitoring. Additionally the data system incorporates functions to identify inactive contractors and track the

collection and destruction of returned PIV Cards, as well as creating a monthly report highlighting inactive contractors that have not returned the PIV credential to GSA.

ISSUE: GSA is challenged with minimizing the risk of cyberattacks to federal building management and control systems.

AGENCY ACTION:

GSA is working on a number of mitigation strategies and solutions for possible cyberattacks on Federal buildings. GSA IT has partnered with PBS to develop guidance, policy, and an assessment process to review building system hardware and software solutions. GSA is working to implement more secure systems while also updating legacy systems. GSA is also implementing specific disaster recovery solutions while conducting constant testing with the building operation staff in preparation of any network outage and/or cybersecurity incidents.

In the last year, GSA IT has developed an authorization and assessment (A&A) framework and partnered with the Department of Homeland Security to perform building assessments that will encompass over 100 GSA building systems. GSA IT and PBS are working to continue this effort, with specific emphasis on our legacy systems, which in some cases have 10-20 year life expectancy. Securing these legacy systems can be a time consuming and expensive process, but GSA has dedicated teams in place prioritizing this work to continue improvement in securing our building systems.

ISSUE: Implementing GSA's Enterprise Risk Management is a significant undertaking.

AGENCY ACTION:

Like many federal government-wide initiatives, implementation of Enterprise Risk Management (ERM) is a significant undertaking. Properly

executed it will enable GSA to identify and manage risks that threaten our ability to implement our mission, programs and operations. GSA has established milestones to meet the OMB requirements, and has received direction from senior leadership on preferred ERM governance and has created a working group. This will allow us to develop a process for considering risk appetite and risk tolerance levels, a methodology for developing a risk profile, an initial risk profile, and integration with management evaluation of internal controls as appropriate.

ISSUE: GSA faces challenges achieving sustainability and environment goals

AGENCY ACTION:

Energy Savings Performance Contracts Cost Computations

AGENCY ACTION:

GSA concurs that witnessing for on-site baseline measurements should be better documented. The Department of Energy (DOE), Federal Energy Management Program (FEMP) issued new guidance in November 2015 on measurement and verification, (M&V Guidelines: and Verification for Performance-Based Contracts Version 4.0), which allows agencies to define requirements for witnessing of measurements during baseline development. The ESPC Project Management Office (PMO) will provide guidance in the future on the witnessing requirements for baseline development to all appropriate GSA teams.

GSA requested the Energy Services Companies (ESCO) include witnessing verification in the investment grade audit (IGA). The IGA is the document that contains the scope and process information of the project. ESCOs complied with various levels of specificity. However, GSA did review the baseline data with the assistance of the DOE project facilitators and modeling experts. GSA relied on the DOE project facilitators as the experts on the program requirements. The

project facilitators focused on verifying the key performance parameters. The baseline was also verified with a fully calibrated energy model through eQuest or other modeling software. Baseline review meetings provided the Government an opportunity to review the information and process used by the ESCOs to establish the baseline and calibrate the energy models. During these meetings the ESCOs demonstrated to the GSA teams their modeling process in detail, including the data that was used, and the modeling assumptions.

Collecting Data to Support Goals and Evaluate Results

GSA has robust systems of record in place to verify and track performance against portfolio-level mandated sustainability targets outlined in EO 13693: energy use intensity reduction, water use intensity reduction, renewable energy, diversion of non-hazardous municipal solid waste, diversion of non-hazardous construction and demolition waste, buildings in conformance with the Guiding Principles for Federal Sustainable Buildings (Owned inventory), buildings in conformance with the Guiding Principles for Federal Sustainable Buildings (leased inventory), sustainable acquisition (Public Buildings Service Operations with region by region performance calculated).

GSA OIG's Recovery Act Sustainability Data Audit (report A130128, dated March 31, 2015) focused on how GSA tracks its Recovery projects' goals, scope details, and compliance with the Guiding Principles for Federal High-Performance and Sustainable Buildings. That audit focused on GSA's gBUILD (Green Building Upgrade Information Lifecycle Database) system, among other building sustainability target systems and data sources. OIG's report recommended actions to promote gBUILD data completion, currency, and reliability. GSA agreed, and has completed several actions to strengthen its project delivery program and collect quality data. Specifically: (1) gBUILD policy now requires sustainability data updates to be completed within 60 days after the start of each data call, and a new *Regional Approval Process*

for gBUILD Data complements ongoing Quality Reviews. (2) gBUILD has a new "Challenge/ not on track" minimum performance criteria (MPC) status option, and displays all historical MPC statuses and comments. (MPCs track conformance with the Guiding Principles.) And (3) a new *Sustainability Exemption Oversight Process* validates MPC statuses of N/A or Waiver.

Diminishing Returns on Sustainability Investments

GSA utilizes several strategies to drive cost-effective energy efficiency improvements and to engage building occupants on minimizing energy usage.

Energy and Water Measures Conservation Program and ESPCs

GSA's Energy and Water Conservation Measures Program (BA55) is designed to reduce on-site energy and water consumption through building alteration projects or retrofits of existing buildings systems. These projects are an important part of GSA's approach to reach mandated percentage reduction goals through 2025. Through surveys and studies, GSA is identifying projects in Federal buildings across the country with positive savings-to-investment ratios and with reasonable payback periods. GSA pursues opportunities to invest in certain technologies that may generate rebates and savings from utility companies and incentives from grid operators.

Also, GSA's Energy Savings Performance Contracts (ESPC) National Deep Energy Retrofit program bundles short- and long-term payback projects using blended Energy Conservation Measure calculations. Both the ESPC and BA55 programs have successfully funded technologies by identifying optimum mechanical system modernization and rewarding utility cost market conditions that allow for sufficient returns on investments. This strategy mitigates diminishing returns on investments as we continue to improve energy efficiency throughout our building portfolio.

New Construction and Major Alteration Projects

For new construction and major alterations, GSA selects projects based on wide-ranging criteria, including agency mission requirements, facility condition, reducing the Government's environmental footprint, return on investment, the extent to which each building needs improved energy performance, fire/life safety concerns, occupant well-being, lease cost avoidance, and historic significance. Investments to increase energy efficiency do not always include payback as a performance criteria but even when they do, it is not the only consideration. Performance is a larger area of emphasis and includes reductions in fossil fuel use and greenhouse gas emissions, among other results that are tracked against design targets. GSA selects and delivers projects that balance cost-effectiveness against future energy and water reduction targets. Some investments combine different types of work to yield sound long-term value, and GSA recognizes that energy cost savings are just one type of return.

Leveraging Innovative Technology

Annually, GSA and DOE issue a joint Request for Information (RFI) for next-generation building technologies in support of their respective Green Proving Ground (GPG) and High Impact Technology (HIT) Catalyst programs. The RFI seeks information from industry on emerging and underutilized technologies that have the potential to improve economic and environmental performance in federal and commercial buildings.

The RFI invites technology manufacturers and industry stakeholders to submit information on emerging technologies. Submissions are scored by third parties according to six factors (innovation, potential portfolio performance improvement, deployment potential, payback, demonstration project value, technical risk). Top scoring candidates are evaluated by end user subject matter experts, and a program of technologies are selected and matched with federally owned buildings and/or commercial buildings for measurement and verification (M&V) of their real world performance

by third-party evaluators. M&V results are used to help accelerate deployment of high impact technologies by informing public and private sector investment decisions.

Following favorable evaluation results, nine GPG-evaluated technologies to date have been deployed across over 200 facilities in GSA's portfolio, delivering more than 286,500 MMBtu/yr and \$6 million in annual savings.

Occupant Behavior

Occupant behavior has a significant impact on the overall energy performance in buildings. The use of plug load devices such as computers, printers, copiers, task lighting, and other electronics can account for up to one third of a building's electricity consumption. GSA engages building occupants on energy use reduction using a variety of strategies, including standing up green teams, participating in EPA's Federal Green Challenge, and raising awareness during Energy Action Month and Earth Day.

Implementing GSA's Mobile Workforce Strategy**ISSUE: GSA continues to face challenges with its Mobile Workforce Strategy****AGENCY ACTION:**

GSA's model workplace initiative is designed to improve its ability to manage an increasingly mobile workforce by creating activity-based workplaces that leverage the latest technologies, support collaboration, and improve employee well-being and performance. GSA's initiative to improve its internal workplace through the creation of equitable, sustainable and highly utilized workplaces has resulted in significant reductions in both office and warehouse space since the establishment of the FY 2012 Freeze the Footprint (FTF) baseline.

Since the establishment of FTF, GSA has actually reduced our footprint in each following fiscal year. During FY 2015, GSA reduced square footage by 21

percent, and during FY 2016 GSA further reduced by an additional 1 million square feet. This has led to an overall reduction of more than 35 percent since the FY 2012 baseline (based on preliminary FY16 Federal Real Property Profile data).

For the FY 2017 Reduce the Footprint (RTF), the Office of Administrative Services has partnered with PBS to develop a portfolio-based approach to space reduction projects, ensuring that portfolio strategies such as backfill risk and projected return on investment are taken into account when identifying model workplace projects. GSA continues to leverage mobile workplace strategies such as telework, hoteling, and desk sharing to support model workplace projects that support new ways of working. To better understand the costs and benefits of telework, GSA has implemented a tool to accurately identify and track virtual (full-time telework) agreements in "real time". GSA has also verified and corrected official worksite/duty station designations and corresponding locality pay for virtual and satellite workers.

A total of 9,817 employees (85 percent of total employees) at GSA currently have approved telework agreements in place. Telework training is also required for all employees and managers.

GSA has 596 employees on "full-time telework" agreements. Our time and attendance system has been updated to include a virtual code that captures all full-time telework employee hours. GSA implemented the corrective action plan to ensure all full-time telework employees are paid based on their correct duty station, and processes are in place to ensure locality pay is processed appropriately.

For the last four years, GSA IT has provided a virtual environment using VMWare's Virtual Desktop tool, Horizon, formerly called MyView. Horizon gives users access to a GSA desktop from virtually any device with an internet connection, including home and office computers, smartphones, and tablets. All GSA employees and contractors may use Horizon as it provides access to about 90 percent of the tools used by GSA to conduct mission critical business. GSA's plan is to further train employees through a re-branding of the virtual desktop while adding additional training sessions on Horizon. GSA IT is also expanding the range of capabilities to our mobile users by ensuring GSA employees and contractors will be able to access GSA applications from almost any mobile device, while enhancing security.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES *(UNAUDITED)*

Table 1. Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Financial Management and Reporting	-	-	-	-	-
Total Material Weaknesses	-	-	-	-	-

Table 2. Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance: Unqualified

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management and Reporting	-	-	-	-	-	-
Total Material Weaknesses	-	-	-	-	-	-

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance: Unqualified

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
None	-	-	-	-	-	-
Total Material Weaknesses	-	-	-	-	-	-

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance: Unqualified

NON-CONFORMANCES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
None	-	-	-	-	-	-
Total Non-conformances	-	-	-	-	-	-

Compliance with Federal Financial Management Improvement Act (FFMIA)

	GSA	AUDITOR
1. System Requirements	No lack of compliance noted	No lack of compliance noted
2. Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

SCHEDULE OF SPENDING *(UNAUDITED)*

The following Schedule of Spending presented below is an overview of the resources of GSA and how they were used as of September 30, 2016 and 2015. This schedule is presented to help the public better understand what money is provided to GSA, how GSA spent that money, and to whom the money was paid. Simplified terms were used to improve understanding of budgetary accounting terminology used on the Statement of Budgetary Resources, on page 52.

What money is available to spend represents the authority that GSA was given to spend by law and the status of that authority. In this section:

- Total Resources represents amounts approved for spending by law.
- Less Amount Available but Not Agreed to be Spent represents amounts that GSA was allowed to spend but did not take actions to spend.
- Less Amount Not Available to be Spent represents the amount of total budgetary resources that were not approved for spending.
- Total Amounts Agreed to be Spent represents the amount of spending actions taken by GSA for the fiscal year. This represents contracts, orders and other legally binding obligations of the federal government to pay for goods and services when received.

How was the Money spent provides additional details, by major cost category, of the Total Amounts Agreed to be Spent.

Who did the Money go to identifies the major recipients, by federal and non-federal entities, of Amounts Agreed to be Spent.

The data contained in USASpending.gov does not align perfectly with data in the Schedule of Spending or the Statement of Budgetary Resources. Differences in timing and recording requirements contribute to this variance between amounts reported in this schedule versus GSA's contract data presented on the USASpending.gov website. For example, USASpending.gov does not require that transactions under \$25,000 be reported. In addition, data pertaining to salaries and wages of federal employees, retirement and disability benefits, utilities, leases, and intra-governmental transactions are included in the Statement of Budgetary Resources and Schedule of Spending but are not required to be reported on USASpending.gov.

U.S. General Services Administration

Combined Schedule of Spending

For the Fiscal Years Ended September 30, 2016 and 2015

(Dollars in Millions)

	Federal Buildings Fund		Acquisition Services Fund		Other Funds		GSA Totals	
	2016	2015	2016	2015	2016	2015	2016	2015
What Money is Available to Spend?								
Total Resources	\$16,603	\$15,206	\$13,228	\$12,363	\$1,241	\$1,218	\$31,072	\$28,787
Less Amount Available but Not Agreed to be Spent	5,755	4,205	640	1,849	118	59	6,513	6,113
Less Amount Not Available to be Spent	148	14	955	-	115	167	1,218	181
Total Amount Agreed to be Spent	10,700	10,987	11,633	10,514	1,008	992	23,341	22,493

How was the Money Spent?								
Building Leases	5,654	5,731	24	26	43	43	5,721	5,800
Mission Support & Consulting Services	700	740	5,807	5,046	287	299	6,794	6,085
Operations & Maintenance	1,579	1,586	180	172	7	14	1,766	1,772
Personnel Salaries/Benefits	704	667	420	392	431	426	1,555	1,485
Other Contractual Services	412	408	303	351	135	115	850	874
Land and Buildings	1,092	1,272	1	1	2	1	1,095	1,274
Equipment	87	81	2,595	2,296	66	50	2,748	2,427
Utilities	395	420	-	1	-	-	395	421
Communication	6	6	1,291	1,196	21	25	1,318	1,227
Supplies and Materials	7	11	945	975	2	2	954	988
Other	64	65	67	58	14	17	145	140
Total Amount Agreed to be Spent	10,700	10,987	11,633	10,514	1,008	992	23,341	22,493

Who did the Money go to?								
Federal Entities	647	675	1,623	1,628	449	383	2,719	2,686
Non-Federal								
Commercial and Other Non-Federal Entities	9,533	9,804	9,689	8,586	247	294	19,469	18,684
Employees	520	508	321	300	312	315	1,153	1,123
Total Amount Agreed to be Spent	\$10,700	\$10,987	\$11,633	\$10,514	\$1,008	\$992	\$23,341	\$22,493

IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT (UNAUDITED)

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA, Pub. L. 112-248), IPERIA amends the Improper Payments Information Act of 2002 (IPIA, Pub. L. 107-300) and the Improper Payments Elimination and Recovery Act of 2010 (IPERA, Pub. L. 111-204). It provides guidance on monitoring and reporting improper payments. IPERIA requires agencies to continue their review of programs and activities annually to identify those susceptible to significant improper payments and updates the definition of significant improper payments. Significant improper payments is defined as gross annual improper payments in a program exceeding both the threshold of 1.5 percent and \$10 million of total program funding, or \$100 million in improper payments regardless of the improper payment percentage.

In June 2016, with GSA OIG's concurrence, GSA requested OMB's approval to lower the risk of the Utility program payments and remove this program from the annual requirement to estimate improper payments in accordance with OMB M-15-02. OMB approved GSA's request in July 2016.

A qualitative assessment of Utilities payments in FY 2012 deemed Utilities as highly susceptible to improper payments due to the complexities in validating certain components of the utility invoice (i.e. specifically late payments). Subsequent quantitative assessments of Utilities in FY 2013, FY 2014 and FY 2015 have resulted in extremely low error rates and total improper payments, demonstrating that mitigating controls have effectively reduced risk.

GSA reported the following improper error rates and improper payments for Utilities for the past

three years. Per OMB M-15-02, Question 17, these metrics demonstrate a documented minimum of two consecutive years of improper payments where both statutory thresholds were not exceeded.

Fiscal Year	2013	2014	2015
Improper Payment Error Rate	0.06%	0.88%	0.01%
IPERA Error Threshold	1.5%	1.5%	1.5%
Improper Payment \$ \$(in millions)	\$0.25	\$3.31	\$0.04
IPERA Threshold	\$10 M	\$10 M	\$10 M

GSA provides the following improper payment reporting details in accordance with IPERIA, OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, and OMB Circular A-136, Financial Reporting Requirements.

1. Risk Assessment

IPERIA requires that all agencies to conduct a thorough review of their programs and activities that may be susceptible to improper payments annually, and requires that a re-baseline and review assessment be conducted at least once every three years for all programs not currently identified as high-risk. GSA's last review of all programs was conducted in FY 2015. Therefore, GSA was not required to perform a risk assessment in FY 2016.

2. Statistical Sampling

For FY 2016, GSA measured, estimated and reported improper payment percentage and dollars for two high risk programs. A stratified sampling design was used to test payments based on FY 2015 disbursements. The design of the statistical sample plans and the extrapolation of sample errors across the payment populations were completed by a statistician.

The sampling plan provided an overall estimate of the percentage of improper payment dollars within +/-2.5 percent precision at the 90 percent confidence level, as specified by OMB M-15-02 guidance. Using a stratified random sampling approach, payments were grouped into mutually exclusive “strata,” or groups based on total dollars. A stratified sample can provide greater precision than a simple random sample of the same size, once the overall sample size was determined using the Neyman Allocation Method.

The following procedure describes the sample selection process:

- Grouped payments into mutually exclusive strata;
- Assigned each payment a random number which was generated using a seed;
- Sorted the population by stratum and random number within stratum; and
- Selected the number of payments within each stratum (by ordered random numbers) following the sample size design. For the certainty strata, all payments are selected.

To estimate improper payment dollars for the population from the sample data, the stratum specific ratio of improper to total payment dollars was calculated.

3. Hurricane Sandy Disaster Relief Fund

In accordance with Section 904(b) of the Disaster Relief Act, GSA estimated and measured the use of the funds as it was required to be reported as

“susceptible to significant improper payments” for the purposes of the Improper Payments Information Act (IPIA) of 2002 (IPIA; Public Law 107-300). GSA tested the entire population of FY 2015 payments for the Hurricane Sandy Disaster Relief Fund totaling \$415,856. During the testing process, zero improper payments were identified.

4. Improper Payment Reporting

The original risk assessment performed for FY 2012 identified two programs and three activities as susceptible to significant improper payments. In FY 2015, GSA requested and received relief as allowed under OMB M-15-02 from the annual reporting requirements for four programs. These four programs documented at least two consecutive years of improper payments that were below the statutory threshold. This request for relief was submitted to OMB, and subsequently approved for two of the requested programs: Other Sensitive Payments and ITS-Wide Area Network activities. In FY 2016 GSA requested and received relief from OMB for reporting for an additional program: Utilities.

See Table 1 Improper Payment Reduction Outlook

5. Improper Payment Root Cause Categories

The improper payment assessment identified the root cause for improper payments for the Rental of Space, and Purchase Card programs. Rental of space root causes include missing documentation and late submission of supporting documentation. Purchase card root causes include insufficient documentation, documentation not provided, lack of approval, lack of receipt, sales tax paid, vendor not in System for Award management (SAM), convenience fee, and erroneous charge.

See Table 2 Improper Payment Root Cause Category Matrix

6. Corrective Actions

GSA has no programs or activities with improper payments exceeding the statutory thresholds,

and determined to be susceptible to significant improper payments.

7. Internal Control Over Payments

GSA has no programs or activities with improper payments exceeding the statutory thresholds and determined to be susceptible to significant improper payments.

8. Accountability

GSA has no programs or activities with improper payments exceeding the statutory thresholds and determined to be susceptible to significant improper payments.

9. Agency information systems and other infrastructure

GSA has no programs or activities with improper payments exceeding the statutory thresholds and determined to be susceptible to significant improper payments.

10. Barriers

GSA has not identified any statutory or regulatory barriers, which may limit GSA's ability to implement corrective actions to reduce improper payments.

11. Recapture of Improper Payments Reporting

In FY 2016, The General Services Administration (GSA) Office of the Chief Financial Officer (OCFO) complies with reporting improper payments in compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Public Law 111-204. GSA considered all programs and activities that expended \$1 million or more annually for payment recapture audits. GSA focused on reviewing the PBS Rental of Space program based on the risks identified from previous years. This included in-depth reviews of lease contracts and related payments in 5 of 11 regions. Additionally, GSA performed a duplicate payments review for PBS and FAS payments.

GSA establishes claims in accordance with the Debt Collection Improvement Act of 1996 (DCIA). Unsatisfied debt is referred to the Treasury Offset Program for further collection efforts.

See Table 4 Overpayment Payment Recaptures with and without Payment Recapture Programs

GSA's payment recapture audit identified claims related to the rental of space program. This program is funded through a revolving fund. Therefore, funds recaptured are credited back to their original purpose.

See Table 5 Disposition of Funds Recaptured Through Payment Recapture Audit

12. Additional Comments

The FY 2015 statutory audit of GSA's improper payment reporting identified errors in the reporting process. GSA developed and is executing a corrective action plan to address these concerns. Efforts include implementing a new review process for the preparation of improper payment data, providing training to staff members assigned improper payment reporting responsibilities, and reassigning experienced staff within the Office of Financial Management to provide for continuity within the Internal Controls Division as senior staff members become retirement eligible. GSA efforts highlight its commitment to prioritize its improper payment reduction and recovery efforts. GSA will continue to implement process improvements, and actively address new issues as they are identified.

13. Agency Reduction of Improper Payments with the Do Not Pay Initiative

GSA participates in the continuous monitoring program to review the vendor master database file. When enrolling in Do Not Pay, GSA elected to match against the Death Master File (DMF) and the General Services Administration's Excluded Parties List System (EPLS) database. The enrollment process included evaluating which Do

Not Pay database options were available to GSA to determine which ones would meet our needs based on the types of work GSA does. The Do Not Pay agency coordinator also provided guidance to GSA in making this determination. As other databases become available for Do Not Pay, GSA will work with our agency coordinator to assess if GSA should pursue enrolling for a new database option. The GSA vendor table is transmitted to Do Not Pay on the 10th of every month. GSA extracts the resulting matches and researches them for both the EPLS Private matches Social Security Number and DMF. Vendors that have exclusions are annotated and inactivated in the GSA vendor master database file. No corrections to the SAM/EPLS Private database have been identified by GSA in our review process. Additionally, GSA utilizes the online single search Do Not Pay functionality to check for any matches prior to establishing a new vendor record in the GSA vendor table. Our first vendor file was reviewed as of March 2013.

GSA also receives results for our payments processed on a daily basis from Do Not Pay. These results reflect matches to the SAM Exclusion Records and to Deceased Individuals Records as a result of post payment matching of GSA payments schedules to these databases. The payment matches and exclusion information are reviewed in the Do Not Pay Portal. Once they are reviewed, the payments are adjudicated as proper or improper. The first payment files were reviewed in March 2013. GSA is responsible for, Agency Location codes 47000016, 47000017 and 47000018.

Improper Payment Tables

Table 1 Improper Payment Reduction Outlook (\$ in millions)

Program or Activity	PY Outlays	PY IP%	PY IP \$	CY Outlays	CY IP%	CY IP\$	CY Over Payment \$	CY Under Payment \$	CY+1 Est. Outlays	CY+1 IP%	CY +1 IP\$	CY+2 Est. Outlays	CY+2 IP%	CY+2 IP\$	CY+3 Est. Outlays	CY+3 IP%	CY+3 IP\$
Rental of Space	\$5,745.95	0.12%	\$6.90	\$5,596.30	0.06%	\$3.24	\$2.57	\$0.67	\$5,611.16	0.025%	\$1.40	\$5,626.06	0.01%	\$0.61	\$5,641.00	0.005%	\$0.26
Purchase Cards	\$30.22	6.55%	\$1.98	\$27.05	5.80%	\$1.57	\$1.57	-	\$26.94	5.33%	\$1.44	\$24.08	4.89%	\$1.18	\$21.51	4.49%	\$0.97
Hurricane Sandy	\$0.57	-	-	\$0.42	-	-	-	-	-	-	-	-	-	-	-	-	-
Building Operations-Utilities	\$369.87	0.01%	\$0.04	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	\$6,146.61	0.15%	\$8.92	\$5,623.77	0.09%	\$4.81	\$4.14	\$0.67	\$5,638.10	0.05%	\$2.84	\$5,650.14	0.03%	\$1.79	\$5,662.51	0.02%	\$1.23

* GSA tested FY 2015 for improper payments.

** GSA received relief from reporting of utilities in FY 2016.

*** Estimates are based on historic trends

**** FY 2015 AFR table contained erroneous numbers. This year's PY numbers reflect corrections.

Table 2 Improper Payment Root Cause Category Matrix (\$ in millions)

Reason for Improper Payment		Rental of Space		Purchase Cards	
		Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue		-	-	-	-
Inability to Authenticate Eligibility		-	-	-	-
Failure to Verify:	Death Data	-	-	-	-
	Financial Data	-	-	-	-
	Excluded Party Data	-	-	-	-
	Prisoner Data	-	-	-	-
	Other Eligibility Data (explain)	-	-	-	-
Administrative or Process Error Made by:	Federal Agency	-	-	-	-
	State or Local Agency	-	-	-	-
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	-	-	-	-
Medical Necessity		-	-	-	-
Insufficient Documentation to Determine		-		\$0.78	
Other Reason*		\$2.57	\$0.67	\$0.79	-
TOTAL		\$2.57	\$0.67	\$1.57	-

* Refer to 'Improper Payments Elimination and Recovery Act, Section 5: Improper Payment Root Cause Categories' for Other Reasons.

Table 3 Example of the Status of Internal Controls

GSA has no programs or activities with improper payments exceeding the statutory thresholds and determined to be susceptible to significant improper payment. Table 3 is not applicable.

Table 4 Overpayment Recaptures with and without Recapture Audit Programs (\$ in millions)

Overpayments Recaptured through Payment Recapture Audit																				
Program or Activity	Rental of Space	TOTAL	Contracts					Grants					Benefits			Loans		Other		Total
			Amount Identified	Amount Recovered	CY Recovery Rate	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	Amount Identified	Amount Recovered	CY Recovery Rate	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	Amounts Identified	Amount Recovered	CY Recovery Rate	CY + 1 Recovery Rate Target	CY + 2 Recovery Rate Target	Amounts Identified	Amount Recovered	Amount Identified
			\$13.29	\$14.13	106.32%	100%	100%													
			\$13.29	\$14.13	106.32%	100%	100%													
			\$13.29	\$14.13	106.32%	100%	100%													
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			\$13.29	\$14.13	106.32%	100%	100%													
			\$13.29	\$14.13	106.32%	100%	100%			</										

GSA included all recoveries in FY 2016 including those identified in prior fiscal years. This resulted in a recovery percentage of over 100%.

Table 5 Disposition of Funds Recaptured Through Payment Recapture Audits (\$ in millions)

Amount Recov- ered (This amount will be identi- cal to the "Amount Recovered" in Table 4)	Type of Payment (contract, grant, ben- efit, loan, or other)	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Manage- ment Im- provement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other (please explain in footnote or narrative)
Rental of Space	Contract	-	\$2.29	-	\$11.84	-	-	-
TOTAL		-	\$2.29	-	\$11.84	-	-	-

Table 6 Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (\$ in millions)

Program or Activity	Type of Payment (contract, grant, benefit, loan, or other)	Amount Outstanding (0-6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectible
Rental of Space	Contract	\$2.84	\$4.60	\$4.45	-
TOTAL		\$2.84	\$4.60	\$4.45	-

Table 7 Results of the Do Not Pay Initiative in Preventing Improper Payments (\$ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars (\$) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars (\$) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars (\$) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases	3,025,482	\$19,611.02	-	-	-	-
Review with databases not listed in IPE-RIA as Do Not Pay databases	3,025,482	\$19,611.02	-	-	-	-

OTHER GSA STATUTORILY REQUIRED REPORTS *(UNAUDITED)*

Debt Management

GSA reported \$69.8 million of outstanding debt from non-federal sources, subject to the Debt Collection Improvement Act of 1996 (DCIA). Of that amount, \$38.3 million or 54.9 percent of the outstanding debt was delinquent at the end of FY 2016. Non-federal receivables consist of debts owed on third-party claims, travel advances, proceeds from the sale of real property, and other miscellaneous receivables.

To comply with the DCIA of 1996, GSA transmits delinquent claims each month to the U.S. Treasury, Bureau of the Fiscal Service for cross-servicing collection. During FY 2016, the OCFO referred over \$5.2 million of delinquent non-federal claims to the Treasury for cross-servicing collection activities.

The OCFO has continued to implement and initiate actions to improve our debt collection efforts

and reduce the amount of debt written off as uncollectible for GSA.

GSA actively pursues delinquent non-federal claims using installment agreements, salary offset, administrative wage garnishment, and any other statutory requirement or authority that is applicable. GSA continues to place a high priority on resolving delinquent accounts receivable and claims.

Cash and Payments Management

The Prompt Payment Act, along with the DCIA, requires the timely payment of commercial obligations for supplies and services using electronic funds transfer. In FY 2016, GSA paid interest of \$419 thousand on disbursements subject to the Prompt Pay Act of \$17.6 billion, or \$23.79 in interest per million disbursed. The statistics for the current and preceding two fiscal years are as follows:

	FY 2014	FY 2015	FY 2016
Total Number of Invoices Paid	1,650,972	1,900,160	1,843,201
Total Dollars Disbursed	\$17.5 billion	\$17.2 billion	\$17.6 billion
Total Dollars of Interest Penalties	\$201,402	\$201,183	\$418,587
Interest Paid per Million Disbursed	\$11.51	\$11.66	\$23.79
Percentage of Invoices Paid On Time	99.5%	99.6%	99.6%
Percentage of Invoices Paid Late	0.5%	0.4%	0.4%
Percentage of Invoices Paid Electronically	98.8%	97.4%	99.8%

FREEZE THE FOOTPRINT BASELINE COMPARISON (UNAUDITED)



The U.S. General Service Administration, Heartland Region

GSA exceeded the requirement to freeze its owned real property footprint and reduced it by 21% between FY 2012 and FY 2015. During FY 2016, GSA continued its efforts to reduce its footprint and achieved additional significant reductions. The largest USF reduction during FY 2016 resulted from out leasing more than 800,000 USF of warehouse space at the Eastern Distribution Center in Burlington, NJ no longer needed by GSA due to a change in mission needs.

GSA also achieved significant USF reductions by relocating organizations occupying two of its regional office buildings in the Northeast and Caribbean Region and the Mid-Atlantic Region. Both regions moved into new locations that resulted in USF reductions, improved utilization rates, and better quality workspaces.

GSA is continuously seeking to maximize the use of owned Federal space, eliminating costly lease arrangements, and disposing of underutilized assets. GSA is improving the utilization of space through various workplace strategies including: rightsizing individual, collaborative, and support spaces; desk-sharing; a continued emphasis on enabling and supporting mobile work; and shifting from traditional office space to more flexible, equitable, open-plan workplace environments.

Freeze the Footprint Baseline Comparison

	FY 2012 Baseline	2015	Change (FY 2012 Baseline - 2015)
Usable Square Footage (USF)	6,665,684	5,235,101	1,430,583

Reporting of O&M Costs – Owned and Direct Lease Buildings

	FY2012 Reported Cost	FY2015 Reported Cost	Change (FY2012 Baseline-2015 (CY-1))
Operation and Maintenance Costs (\$ in millions)*	\$44	\$40	\$4

* Reflects operating rent that PBS billed to the GSA Occupancy Agreements (OAs) subject to FTF in FY2012 and FY2015. These figures are different from the O&M costs reported in FRPP as GSA's FRPP O&M costs are reported at the asset level and includes vacant federal space as well as space occupied by other agency OAs. Additionally, FRPP definition of O&M costs, includes only actual expenses recurring maintenance and repair costs, utilities, cleaning and roads/grounds expenses, whereas PBS billed operating rent may include other operating cost components.

CIVIL MONETARY PENALTIES INFLATION ADJUSTMENT

The Federal Civil Penalties Inflation Adjustment Act of 1990 (the Inflation Adjustment Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties (CMP) to maintain their deterrent effect. The following are those penalties and applicable authorities identified for inflationary adjustment in accordance with the Act.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level (\$ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
38 U.S.C. secs. 3801-3812	Program Fraud Civil Remedies Act (PFCRA)	1986	December 20, 1996	\$5,500 for each false, fictitious, or fraudulent statement	N/A	61 FR 246 (December 20, 1996) and 41 CFR 105-70

DESCRIPTION OF INDEPENDENT AND CENTRAL OFFICES *(UNAUDITED)*

Office of Administrative Services (OAS): OAS provides responsive, innovative, timely, and value-added solutions for GSA's administrative, workplace and information management needs in ways that promote integrity, the efficient use of government resources and effective risk management.

Office of the Chief Financial Officer (OCFO): OCFO provides enterprise-wide budget, financial management, financial analysis, performance management, and strategic planning services to GSA business lines and staff offices.

Civilian Board of Contract Appeals (CBCA): The CBCA is an independent tribunal housed within GSA. Its primary responsibility is to adjudicate contract disputes between civilian Federal agencies and contractors under the Contract Disputes Act.

Office of Civil Rights (OCR): OCR ensures equal employment opportunity for all GSA employees and applicants for employment on the basis of age, color, disability, genetic information, national origin, race, religion, sex, and retaliation from protected activity. OCR also ensures compliance with applicable civil rights laws that apply to GSA's Federal financial assistance programs and federally conducted programs, administers GSA's Environmental Justice and Affirmative Employment Programs, and adjudicates appeals in the GSA administrative grievance process.

Office of Communications and Marketing (OCM): OCM works to support the American people, the federal government, and GSA through timely, responsive, and accurate communications.

Office of Congressional and Intergovernmental Affairs (OCIA): OCIA maintains Agency liaison with Congress; prepares and coordinates GSA annual legislative program; communicates GSA legislative program to OMB, Congress, and other interested parties; and works closely with OMB in the coordination and clearance of all proposed legislation impacting GSA.

Office of GSA IT (GSA IT): GSA IT serves the agency and the federal government with Innovative, Intuitive, and Integrated (I3) solutions through being efficient, strategic, and thought leaders. We provide high-quality IT solutions and services at the best value to fulfill GSA's mission.

Office of Human Resources Management (OHRM): OHRM primary focus is to help GSA attract, motivate, develop, retain, and reward our most valuable resource: our employees.

Office of Mission Assurance (OMA): OMA ensures resilience and continuity of the agency's critical business processes by integrating and coordinating activities across all domains of security physical, personnel, and industrial, HSPD-12 credentialing, emergency management, and contingency and continuity planning. OMA provides an enterprise-wide approach to mission assurance planning while ensuring the safety, privacy, and security of GSA facilities and people nationwide.

ACRONYMS AND ABBREVIATIONS *(UNAUDITED)*

A&A	Authorization & Assessment	ESCO	Energy Services Companies
AAAP	Automated Advanced Acquisition Program	ESPC	Energy Savings Performance Contracts
AAS	Assisted Acquisition Services	FAC	Facility Access Cards
AFR	Agency Financial Report	FAR	Federal Acquisition Regulation
API	Application Program Interface	FAS	Federal Acquisition Service
ARRA	American Recovery and Reinvestment Act	FASAB	Federal Accounting Standards Advisory Board
ASF	Acquisition Service Fund	FBF	Federal Buildings Fund
BA55	Energy and Water Conservation Measures Program	FBwT	Fund Balance with Treasury
BAAR	Billing and Accounts Receivable	FCI	Facility Condition Index
BPA	Blanket Purchase Agreement	FCSF	Federal Citizen Services Fund
CBCA	Civilian Board of Contract Appeals	FECA	Federal Employees' Compensation Act
CIO	Chief Information Officer	FEMP	Federal Energy Management Program
CO	Contracting Officer	FERS	Federal Employees Retirement System
COP	Communities of Practice	FFMIA	Federal Financial Management Improvement Act
CSBR	Combined/Combining Statements of Budgetary Resources	FISMA	Federal Information Security Management Act
CSRS	Civil Service Retirement System	FITARA	Federal Information Technology Acquisition Reform Act
CY	Current Year	FMFIA	Federal Managers' Financial Integrity Act of 1982
D2D	Data to Decisions Program	FMLoB	Financial Management Line of Business
DCIA	Debt Collection Improvement Act of 1996	FPT	Formatted Product Tool
DHS	Department of Homeland Security	FSSP	Federal Shared Services Provider
DM&R	Deferred Maintenance and Repairs	FTE	Full-time Equivalent
DMF	Death Master File	FTF	Freeze the Footprint
DOE	Department of Energy	FY	Fiscal Year
DOI	U.S. Department of the Interior	GAAP	Generally Accepted Accounting Principles
DOL	U.S. Department of Labor	GAO	Government Accountability Office
E-MORRIS	Enhanced Monthly Online Records and Reports of Information Technology Services	gBUILD	Green Building Upgrade Information Lifecycle Database
EASI	Electronic Acquisition System Integration	GCiMS	GSA Credential and Identity Management System
EIS	Enterprise Infrastructure Solutions	GPG	Green Proving Ground
ELIM	Eliminations	GS&S	General Supplies & Services
EO	Executive Order	GSA	U.S. General Services Administration
EOP	Executive Office of the President	GSAIT	Office of GSA IT
EPIC	Electronic Capital Planning and Investment Control		
EPLS	Excluded Parties List System		
ERM	Enterprise Risk Management		

GSAR	GSA Acquisition Regulation	PMO	Program Management Office
HIT	High Impact Technology	PMR	Procurement Management Review
HVAC	Heating, Ventilation & Air Conditioning	R&A	Repairs and Alterations
IAG	Infrastructure Advisory Group	REXUS	Real Estate Across the United States
IP	Improper Payment	RFI	Request for Information
IPA	Independent Public Accountant	RTF	Reduce the Footprint
IPERA	Improper Payments Elimination and Recovery Act of 2010	RWA	Reimbursable Work Authorization
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012	SAM	System for Award Management
IPIA	Improper Payments Information Act	SF 133s	Reports on Budget Execution and Budgetary Resources
IT	Information Technology	SFFAS	Statements of Federal Financial Accounting Standards
M&V	Measurement & Verification	SSA	Social Security Administration
MAS	Multiple Award Schedule	TDR	Transactional Data Rule
MCOC	Management Control Oversight Council	TMVCS	Travel, Motor Vehicles, and Card Services
MPC	Minimum Performance Criteria	TOPS	Telecommunications Ordering & Pricing System
NCR	National Capitol Region	TSP	Thrift Savings Plan
NHS	Network Hosting Center	TTS	Technology Transformation Service
NIST	National Institute of Standards and Technology	U.S.	Treasury U.S. Department of the Treasury
NSFS	Network Services Future Systems	USDA	U.S. Department of Agriculture
OA	Occupancy Agreement	USF	Usable Square Footage
OAS	Office of Administrative Services	USSGL	U.S. Standard General Ledger
OASDI	Old-Age, Survivors, and Disability Insurance Program	WAN	Wide Area Network
OASIS	One Acquisition Solution for Integrated Services	WCF	Working Capital Fund
OCFO	Office of the Chief Financial Officer		
OCIA	Office of Congressional & Intergovernmental Affairs		
OCM	Office of Communication and Marketing		
OCR	Office of Civil Rights		
OCSIT/18F	Office of Citizen Services and Innovative Technologies/18F		
OGP	Office of Government-wide Policy		
OHRM	Office of Human Resources Management		
OIG	Office of the Inspector General		
OMA	Office of Mission Assurance		
OMB	Office of Management and Budget		
OMS	Order Management System		
OPM	Office of Personnel Management		
PBS	Public Buildings Service		
PCS	Physical Condition Survey		
PIF	Presidential Innovation Fellows		
PIV	Personal Identity Verification		
PKI	Public Key Infrastructure Program		



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